Transition Planning Guide

for Agribusiness

START IT
PLAN ON IT
GROW IT
PASS IT ON

Canada
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Manitoba

Transition Planning Guide for Agribusiness

The surest way to reach a business goal is to plan on it. Successful Manitoba agribusiness owners are focused people. They have clear, flexible, short and long term business plans – and they monitor and revise their plans regularly.

Whether you're starting, growing or passing along your business, you need a solid business plan. Manitoba Agriculture, Food and Rural Development (MAFRD) can help you build a plan for success.

Successful transition planning involves looking ahead and planning for the future. Leaving behind a healthy business is important to keep it viable and profitable for the long term. Use this resource as a guide to create a transition plan for your agribusiness. Learn about the transition phases by following the case study, select one transition planning approach, and complete the exercises to help you build and implement a strong plan.

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This publication is available in multiple formats upon request.

Aussi disponible en français.

Introduction

This guide is designed to be a tool for transition planning to help position your farm or agribusiness to be successful in intergenerational transition.

Transition planning, or commonly referred to as succession planning, is the intergenerational transfer of ownership (capital), management and labour. It is not a single event or a series of meetings with advisors. It is a process — a process that can be thought of as business continuity planning.

A business must be healthy heading into transition planning, remain healthy through the process and emerge as strong as or stronger than when the process started. A well-developed transition plan should complement the strategic direction of your business.

What are the goals?

What are the values?

What is the vision?

What do you want?

Where will the business be in the future?

Where will the farm and family be in the future?

Setting the strategic direction helps to keep ongoing farm management in sync with the intergenerational transition. It increases the likelihood that the agribusiness will remain viable and profitable through the transition. Families working on their transition plans often overlook this critical piece. If the planning does not leave a healthy business in place, the transition plan will fail.

About this guide

This guide can be used by farm families or agribusiness owners who want to work through the transition planning process on their own. Advisors can also use the guide to help assist with the development of the transition plan.

The guide takes you through three phases of the transitional planning process: readiness assessment; plan development; and plan implementation.

After an initial planning meeting with family members and others involved in the transition planning process, you will identify one of the five planning approaches which best suits the needs of your business: comprehensive approach; condensed approach; estate planning approach; ownership transfer and tax strategy approach; or user-defined approach.

You will work step by step through a series of topics to help develop a complete transition plan. The appendix contains removable forms and worksheets to record information and help guide you through each topic.

These forms can be stored in the folders provided at each planning phase of the guide.

A realistic, but fictional case study has been included to help you identify with the examples included in this guide.

The examples throughout the guide will give you an idea on how to complete the exercises that are associated with the topic areas.

To begin, read this guide including the case study and be familiar with its contents. Include those family members who will be involved in the transition planning process as well.

Note: Family farms and family agribusinesses can use the same process to direct them through the transition. The Transition Planning Guide for Agribusiness *references 'farms' and 'farmers' throughout the guide. Families who work in an agribusiness can use the guide to help them with transition. Simply interchange 'farms' and 'farmers' with 'agribusinesses' and 'agribusiness owners'.*

The financial performance, management examples and exercises in the guide are not applicable to agribusiness. Both topics are applicable - just not the examples and exercises.

Icons used in this guide

This guide uses these icons to alert you to useful information.

EXAMPLE

PLANNING POINTERS

WHAT TO WATCH FOR

EXERCISE

If you chose *Option 1: Comprehensive Approach* to help build your transition plan, this icon will indicate the stage you are at in the planning process.

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Other considerations in the transition planning process

As you work through the transition planning process, here are some other points to consider in the planning process:

1. If you have concerns about some of the typical challenges associated with transition planning – dealing with entitlement, fair and equal, compensation, farming and non-farming children as examples – you may want to read Topic 14: 'Challenges in Transition Planning' before starting your planning process.

   Topic 14 provides an overview on twenty of the more common challenges families encounter in transition planning.
2. You can expect to have differences of opinion within the family as you work through the process. Having differences of opinion is okay. **All families experience them.** Here are some tips on how to deal with differences of opinion:
   - Give family members a chance to voice their opinions.
   - Make sure that everyone has a good understanding of the different opinions.
   - Get the facts associated with the opinions.
   - Focus on the opinion and not the person.
   - Give people time to think about what they've heard.
   - Try parking a difference of opinion and come back to it later.
   - Try to come to consensus on the issue.
   - If you are having trouble, or are worried about the potential for conflict, think about using an external facilitator.

Transition Planning Case Study

This case study, set in the winter of 2012/2013, is based on an actual farming operation in Manitoba. To ensure the privacy of the owners' operations, the names of the owners are replaced with Rob and Faye Sample. They have a married son and a daughter in university.

Background

Rob and Faye Sample have been farming for 33 years. Both are in their mid-50s. The couple bought 800 acres of land for $200,000 from Rob's father in 1979 and paid it off in 1994. They bought an adjoining half section in 1980 for $128,000 and paid it off in 2000.

In 2008, a neighbour wanted to sell 1,440 acres and some outbuildings to the Samples for $1.4 million. The Samples had been renting the land and even though they thought that the asking price was steep, they didn't think they had any option but to make the purchase. So they went ahead with it, feeling that if they didn't make the purchase, someone else would. In 2010, they added a grain handling system to replace/upgrade the older granaries bought from Rob's father. The loan is due in 2015. They also borrowed $50,000 in 2011 to renovate the house and buy a recreational vehicle. The loan is due in 2016. Both Rob and Faye think the nearly 4,200 cultivated acres they are now farming is enough. "We have what we want," says Rob. "We work hard and don't seem to have a lot of time away from the business, even though we have some excellent help."

The Samples have one full time employee and some seasonal workers during the summer and fall. The couple find it's always a struggle to hire good employees or any employees at all. When they first began farming, Rob and Faye thought they only needed help during seeding and harvest and only looked for help at those times, but finding qualified, reliable, motivated people was a challenge. They decided to hire a full time employee and only bring in seasonal workers during really busy times. The challenge of having a full time worker was how to keep him busy during the winter months.

Having a full time person worked well until he decided to leave without much notice, just before harvest in 2012, the Samples haven't replaced him. Fortunately, 2012 was an open fall and their son, John Sample, came back home to help his parents with harvest.

Business Structure

Rob and Faye farm together in a corporate business structure. They each own 50 per cent of the common shares. The first two pieces of land they bought are in both their names and are held personally, outside the family company. There is no rental arrangement between the business and the Samples, as personal owners, to farm this land.

The Samples discussed the best way to buy the most recent piece of land ($1.4 million) and decided the best approach was to have it bought and owned by the corporation, rather than owning it personally.

Business Challenges

The Samples' farming operations went pretty well until 2009 and 2010, when there were challenges with wet weather. The markets remained strong in 2011 and 2012 , but by the winter of 2012/13, Rob and Faye had some decisions to make. They had lost their full time employee just before harvest. And even with their son's help, it was a challenge to get the crops in with added stress and longer hours for the whole family. The couple wanted to make sure they didn't face the same kind of challenge again.

One of the things they wanted to look at was how to reduce some of their business costs.

For example, their custom farm work costs, because every year, the timing of getting the custom work done became more of a problem. Waiting for custom work can delay farming operations and that can affect yields and quantity. The Samples run one combine and one seeding unit, both of which are run at full capacity during the season.

Because Rob's equipment is older and slower, they needed to hire custom workers to help finish the work on time. They decided it was more efficient to hire custom workers than to invest capital in new equipment. Their reasoning was that they didn't want to take on more debt.

Rob says that their lenders do not appear to be overly concerned. Their financial situation was worse a couple of years ago. But in the year of this case study – 2012/2013 – even after the Samples had a couple of better years financially, their lenders are still cautious about extending more financing.

In spite of the challenges, the Samples say that farming has given them a good life. At this point in their lives, the couple want to enjoy more of the benefits of their hard work and persistence over 33 years. They say the farm should be comfortably paying its way, now.

Current Financial Status

The Samples have accumulated just over $1.7 million owner's equity (or about $3.6 million in equity – net worth). This is calculated using market value for their assets and without the outstanding shareholder loans. They have three term loans, an operating loan and some accounts payable. The operating loan has not revolved in the past two or three years. This chart shows the Samples' existing term loans.

Original Date	Original Amount	Principal and Interest Annualized	Principal Outstanding December 2012	Principal Due 2013
2008	*$1,400,000*	*$127,058*	*$1,244,561*	*$49,885*
2010	*$ 350,000*	*$70,000* *((equal principal)*	*$210,000*	*$70,000*
2011	*$50,000*	*$11,548*	*$40,962*	*$9,495*

The large loan in 2008 to buy more land was a risk. It was financed over 20 years and matures in 2028. Because their other land was already paid off, they used it as security for the 2008 loan and didn't need a down payment to get the $1.4 million loan. However, the loan did equal about 60 per cent of the farm's total land value.

The Samples took out a $350,000 loan in early in 2010 to provide more operating capital and financed it over five years (due in 2015). Their operating cash was low in 2009 as they were struggling with the wet weather. When things started to turn around in 2011, the couple took out a $50,000 loan to pay for some much needed home renovations and buy a recreational trailer (fifth wheel) so they could take vacation time away from the farm. This was also a five-year term (due in 2016).

In the past, Rob bought smaller capital items using operating cash, rather than taking a loan and setting a repayment schedule. He says cash flow feels tight at times.

Business Management

The management structure of Sample Farms is similar to the vast majority of mid-sized farms in Manitoba. Faye does the bookkeeping and helps with the office functions, such as payroll and GST reporting. Rob's passion is farming and while he assumes responsibility for all other management functions, he'd rather be outside working. He knows some changes are needed, but thought things were working fine until their hired man left, now reality is setting in. Who is going to do the work? How is Rob going to be able to manage?

The Family Options

Rob and Faye are in their mid-50s. Son John is 29 and married to Rebecca. Daughter Carol is 27 and finishing a degree at university.

John has an agriculture business degree and works for the provincial government and makes about $55,000 annually. John likes his job but is also very interested in expanding his horizons. He likes helping his family with harvest in the fall, but it wasn't necessary until the hired man left last fall. Rebecca is a trained health professional and has a lot of job options in any urban centre, but few if they move to the Sample farm. They have no children but do want to start a family.

The young couple have discussed moving to the farm and having John work with his father or take it over completely from his parents. If they do that, Rebecca thinks that would be a good time to start a family, since her career options will be limited.

Carol is in a long term relationship with an apprentice carpenter and living in another province. Their plans hinge on what kind of job Carol can get when she finishes her degree. Carol did help on the farm when she was younger, but has not talked about any interest in farming a career.

Rob and Faye take a fixed management salary of $60,000 plus an allowance for their daughter's university costs. Every month, Rob takes money from the farm account and transfers it to a separate account for family living expenses. Faye thinks they should be emphasizing savings and security now, for their retirement. Both Rob and Faye think the equity they have built in the farm will provide protection for their family and for their retirement.

Faye's parents ran a successful business. She and Rob may inherit from them in the distant future. Rob's parents have both passed away. Rob and Faye's term loans are life insured. Rob has no disability insurance. There are no other life insurance policies.

Rob is under constant stress and this causes Faye some concern. She has a hard time getting him to talk about their situation. Compounding the situation is the possibility that John and Rebecca may want to move to the farm but there hasn't been any real discussion about it.

The Future

The loss of the hired man was pivotal to the couple's future plans. They don't want to do another harvest without a full time person to help. They are asking themselves a lot of important questions:

- How do they avoid hiring someone who may leave at any time?
- Should they talk to John and Rebecca about taking over the farm? Will that put too much pressure on the younger couple?
- What would happen if John and Rebecca came to farm? How would the business be set up?
- If John and Rebecca take over the farm, what does that mean for Carol and her partner?
- Can Rob and Faye continue to manage with just seasonal help?

All these questions and more are integral to transition planning for this family.

Financial Performance

Ratio Analysis

		2008	2009	2010	2011	2012
Liquidity						
Current ratio	current assets / current liabilities	**2.3**	**1.4**	**1.4**	**2.1**	**2.7**
		$1 743 077	$1 346 126	$902 137	$2 106 650	$2 591 404
		$756 705	$980 005	$631 263	$1 004 929	$965 588
Working capital percentage of total operating expenses	current assets - current liabilities / cash operating expenses	**74.1%**	**29.9%**	**23.0%**	**78.5%**	**120.1%**
		$986 372	$366 121	$270 874	$1 101 721	$1 625 816
		$1 330 637	$1 226 399	$1 176 975	$1 403 805	$1 353 326
Debt structure ratio	current liabilities / total liabilities	**35.7%**	**42.5%**	**28.7%**	**40.2%**	**41.4%**
		$756 705	$980 005	$631 263	$1 004 929	$965 588
		$2 120 646	$2 305 543	$2 195 902	$2 496 962	$2 331 731
Solvency						
Equity ratio	total equity / total assets	**54.8%**	**48.3%**	**47.4%**	**54.0%**	**60.8%**
		$2 574 515	$2 155 864	$1 982 625	$2 926 306	$3 609 359
		$4 695 161	$4 461 407	$4 178 527	$5 423 268	$5 941 090
Debt to equity ratio	total liabilities / total equity	**0.82**	**1.07**	**1.11**	**0.85**	**0.65**
		$2 120 646	$2 305 543	$2 195 902	$2 496 962	$2 331 731
		$2 574 515	$2 155 864	$1 982 625	$2 926 306	$3 609 359
Debt servicing ratio	debt servicing capacity / principal and interest	**2.06**	**-1.92**	**-0.44**	**4.55**	**3.27**
Debt servicing capacity	net income (before tax) *plus* interest on term debt *plus* amortization *minus* owner withdrawals *minus* income tax paid	$365 683	-$372 111	-$96 660	$1 020 651	$756 689
Net income		$175 430	-$546 751	-$301 339	$815 581	$554 953
Amortization		$99 037	$91 976	$107 625	$106 816	$99 652
Interest		$91 216	$82 664	$97 054	$98 254	$102 084
Principal		$86 059	$110 899	$122 606	$125 890	$129 380
Interest		$91 216	$82 664	$97 054	$98 254	$102 084
Payments		$177 275	$193 563	$219 660	$224 144	$231 464
Financial Efficiency						
Gross margin ratio	gross margin / gross revenue	**48.3%**	**22.6%**	**4.7%**	**62.7%**	**63.0%**
		$639 963	$171 527	$31 319	$1 256 449	$1 166 975
		$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
Contribution margin ratio	contrribution margin / gross revenue	**28.4%**	**-13.8%**	**-18.8%**	**48.9%**	**45.9%**
		$375 813	($105 164)	($125 862)	$979 471	$849 964
		$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
Net operating profit margin ratio	net operating profit margin / gross revenue	**-8.0%**	**-73.6%**	**-91.7%**	**24.6%**	**21.5%**
		($105 334)	($558 866)	($614 547)	$493 472	$398 138
		$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
Interest expense ratio	total interest / gross revenue	**8.1%**	**13.5%**	**18.8%**	**6.0%**	**6.3%**
		$107 893	$102 551	$125 986	$120 808	$116 722
		$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
Amortization expense ratio	amortization / gross revenue	**7.5%**	**12.1%**	**16.1%**	**5.3%**	**5.4%**
		$99 037	$91 976	$107 625	$106 816	$99 652
		$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
Profitability						
Return on equity ratio	net income / total equity	**6.8%**	**-25.4%**	**-15.2%**	**27.9%**	**15.4%**
		$175 430	-$546 751	-$301 339	$815 581	$554 953
		$2 574 515	$2 155 864	$1 982 625	$2 926 306	$3 609 359
Return on assets ratio	net income + long term debt interest / total assets	**5.7%**	**-10.4%**	**-4.9%**	**16.9%**	**11.1%**
		$266 646	-$464 087	-$204 285	$913 835	$657 037
		$4 695 161	$4 461 407	$4 178 527	$5 423 268	$5 941 090
Asset turnover ratio	gross revenue / total assets	**28.2%**	**17.0%**	**16.0%**	**37.0%**	**31.2%**
		$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
		$4 695 161	$4 461 407	$4 178 527	$5 423 268	$5 941 090

Sample Farms Ltd. Balance Sheet

	2008	2009	2010	2011	2012
Assets					
Current					
Accounts Receivable	$55 885	$207 624	$170 384	$169 881	$274 665
Inventory	$1 591 159	$1 043 327	$656 833	$1 800 868	$2 195 199
Prepaid Expenses	$96 033	$95 175	$74 920	$135 901	$121 540
Total	$1 743 077	$1 346 126	$902 137	$2 106 650	$2 591 404
Long Term					
Patronage Dividends	$17 667	$18 931	$21 551	$23 101	$26 983
Land	$1 728 000	$1 728 000	$1 728 000	$1 728 000	$1 728 000
Property and Equipment	$630 417	$664 350	$694 839	$605 517	$506 703
Total	$2 376 084	$2 411 281	$2 444 390	$2 356 618	$2 261 686
Total Assets	$4 119 161	$3 757 407	$3 346 527	$4 463 268	$4 853 090
Liabilities					
Current					
Bank Indebtedness	$429 577	$507 972	$491 199	$631 620	$611 606
Accounts Payable	$241 069	$361 134	$17 458	$247 419	$224 602
Current Portion Term Debt	$86 059	$110 899	$122 606	$125 890	$129 380
Total	$756 705	$980 005	$631 263	$1 004 929	$965 588
Long Term Debt	$1 363 941	$1 325 538	$1 564 639	$1 492 033	$1 366 143
Shareholder Loan	$805 190	$805 190	$805 190	$805 190	$805 190
Total Liabilities	$2 925 836	$3 110 733	$3 001 092	$3 302 152	$3 136 921
Retained Earnings					
Share Capital	$100	$100	$100	$100	$100
Net Earnings (Loss) Current Year	$175 430	-$546 751	-$301 339	$815 581	$554 953
Retained Earnings Prior Year	$1 017 795	$1 193 325	$646 674	$345 435	$1 161 116
Retained Earnings	$1 193 325	$646 674	$345 435	$1 161 116	$1 716 169
Liabilities and Retained Earnings	$4 119 161	$3 757 407	$3 346 527	$4 463 268	$4 853 090
Normalizing Adjustments					
Balance Sheet					
Market Value Adjustment to Land					
Acres	2 560	2 560	2 560	2 560	2 560
Market value	$900	$950	$1 000	$1 050	$1 100
	$2 304 000	$2 432 000	$2 560 000	$2 688 000	$2 816 000
Original cost	$1 728 000	$1 728 000	$1 728 000	$1 728 000	$1 728 000
Net worth adjustment	$576 000	$704 000	$832 000	$960 000	$1 088 000
(note: no adjustment to market value for equipment)					
Shareholder Loan Adjustment	$805 190	$805 190	$805 190	$805 190	$805 190
Total Adjusted Assets	$4 695 161	$4 461 407	$4 178 527	$5 423 268	$5 941 090
Total Adjusted Net Worth	$2 574 515	$2 155 864	$1 982 625	$2 926 306	$3 609 359

Sample Farms Ltd. Income Statement

	2008	2009	2010	2011	2012
INCOME					
Crop Sales	$1 265 882	$1 307 341	$1 056 547	$860 058	$1 456 785
Inventory Change	$58 458	($547 832)	($386 494)	$1 144 035	$394 331
GROSS REVENUE	$1 324 340	$759 509	$670 053	$2 004 093	$1 851 116
DIRECT EXPENSES					
Fertilizer	$291 717	$241 624	$279 728	$381 991	$240 996
Chemical	$147 110	$150 966	$154 134	$223 288	$240 577
Seed/grain purchases	$226 939	$179 022	$204 872	$114 958	$164 351
Crop Insurance	$18 611	$16 370	$0	$27 407	$38 217
Total	$684 377	$587 982	$638 734	$747 644	$684 141
GROSS MARGIN	$639 963	$171 527	$31 319	$1 256 449	$1 166 975
VARIABLE EXPENSES					
Custom Work	$67 355	$76 637	$17 990	$82 229	$84 101
Fuel and oil	$42 186	$54 447	$44 441	$72 140	$65 821
Wages (direct)	$63 106	$59 670	$61 212	$73 374	$97 864
Repairs & Maintenance - Machinery	$91 503	$85 937	$33 538	$49 235	$69 225
Total Operating Expenses	$264 150	$276 691	$157 181	$276 978	$317 011
CONTRIBUTION MARGIN	$375 813	($105 164)	($125 862)	$979 471	$849 964
FIXED EXPENSES					
Utilities	$13 273	$11 431	$14 953	$12 143	$14 898
Rent	$64 659	$56 969	$61 201	$60 304	$66 652
Repairs & Maintenance - Building	$26 333	$20 286	$11 473	$28 179	$8 230
Insurance	$34 731	$39 195	$39 532	$30 876	$30 646
Interest & Bank charges	$16 677	$19 887	$28 932	$22 554	$14 638
Interest on Long Term Debt	$91 216	$82 664	$97 054	$98 254	$102 084
Office	$34 020	$24 577	$25 530	$31 860	$20 529
Professional Fees	$10 468	$7 134	$7 475	$9 050	$8 240
Property Taxes	$23 521	$26 284	$22 743	$11 687	$12 998
Salaries & Benefits	$67 212	$73 299	$72 167	$74 276	$73 259
Amortization	$99 037	$91 976	$107 625	$106 816	$99 652
Total Overhead & Administration Expenses	$481 147	$453 702	$488 685	$485 999	$451 826
NET OPERATING PROFIT	($105 334)	($558 866)	($614 547)	$493 472	$398 138
OTHER REVENUE (EXPENSE)					
Programs (Government)	$231 382	$18 988	$290 477	$291 058	$117 295
Rebates	$17 667	$16 384	$25 226	$17 194	$22 437
Custom work	$18 326	$3 255	$11 903	$13 857	$17 083
Gain / (Loss) on capital assets	$13 389	($26 512)	($14 398)	$0	$0
Total Other	$280 764	$12 115	$313 208	$322 109	$156 815
NET INCOME	$175 430	($546 751)	($301 339)	$815 581	$554 953

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APPENDIX 193

CHAPTER 1

The Road to Transition Planning Success

CHAPTER 1

The Road to Transition Planning Success

What is the difference between transition planning and estate planning?

There is often some confusion between transition planning and estate planning. They are distinct planning topics but complement each other. Both are important to the overall plan to transition ownership and management to the next generation.

Estate planning deals specifically with wills and legal documents, tax management strategies, investment and savings, insurance, estate distribution and contingencies.

A transition plan, where the next generation is going to be farming, must include a complementary estate plan, but not necessarily vice versa.

If the next generation is not interested in farming, then the retiring farming family may only need an estate plan.

What does a transition plan look like?

A transition plan is a living document that helps guide decisions around ownership, leadership, business structure, tax strategies and contingency plans.

There are several steps to developing a plan. These steps can take from several months to several years to complete depending on the needs and size of the business.

Your transition plan will be revised frequently to align with the changing environment and family circumstances. The result will be a clear, detailed plan that will help ensure a successful transition.

What is the transition planning process?

The first step in the transition planning process starts with an initial planning meeting between family members and others involved in the transition planning process. The next section contains information on how to get this meeting started.

The actual transition planning process includes three phases and they are completed through specific topics:

Phase 1: Readiness Assessment

This phase includes topics that will help you to determine if you are ready to begin transition planning. Transition planning requires a significant investment of time, money and emotional resources. There are farms that are simply not ready for transition planning. It is far better to realize this early. It is easier for ownership and management to make adjustments **before** beginning to work through the process.

Phase 2: Plan Development

This phase includes topics that will together form your transition plan.

Phase 3: Plan Implementation

Developing a transition plan can follow a standard process but implementation is specific to each farm family.

What are the approaches in transition planning?

Next, after your initial planning meeting, select a planning approach that is right for your business and family needs.

There are five planning approach options to choose from, each identifies specific topics that help build your transition plan:

Option 1 – Comprehensive Approach

This approach is the most detailed and all-inclusive approach. Most farm families will take a year or more to work through all the topics.

Option 2 – Condensed Approach

This approach includes the minimum recommended topics. Families following this approach could work through the topics in six months or less.

Option 3 – Estate Planning Approach

Use this approach when there may not be a next generation wanting to return to the farm or business. For families in this situation, the most important topics to consider are related to the estate plan. Families following this approach could work through the topics in six months or less.

Option 4 – Ownership Transfer and Tax Strategy Approach

This approach already involves having a good understanding of how you see your family managing through the transition. You will need to understand the different ownership transfer options that are available and their related advantages and disadvantages. You will also need to apply the most appropriate and advantageous tax strategy possible. Families following this approach could work through the topics in six months or less.

Option 5 – User-Defined Approach

You may find that none of the approaches, as outlined above, meet your needs. The user-defined approach lets you to tailor the transition planning topics to meet your specific needs.

Each planning approach is available as a table to help guide and record your progress. Locate and tear out your chosen planning approach in the Appendix (pages 195-205) to guide you through the process.

Follow the next section of this guide to start the process of your transition plan.

CHAPTER 2

Initial Planning Meeting

CHAPTER 2

Initial Planning Meeting

How do you get your planning started?

For farm families who are, or soon will be, dealing with transition planning, getting the process underway can be a challenge. Structure, in the form of a planning process and formal meetings, helps. Sometimes though, getting an initial meeting organized is the most difficult — like taking the proverbial first step.

The preferred approach would be to have the retiring generation initiate the planning and call the first meeting, if that's how they want to get the process started. However, if the retiring generation is delaying or not proceeding with transition planning, the next generation can take the lead. There is no guarantee that the parents will want to, or agree to, participate but it's fair for the next generation to attempt to get the process started.

Pre-meeting work:

1. Write an agenda and adjust to meet the specific needs of the farm family by deleting or adding items. A sample agenda is provided on the next page with items to consider for the meeting.
2. Send the agenda out before the meeting occurs. It also gives attendees an opportunity to think about the matters at hand and not be surprised when they attend. This helps to make the meeting more productive and can help to avoid conflict.
3. Decide how much time to allocate for the meeting and stick to it. If the discussion results in not getting through all the agenda items, then leave the remaining points to the next meeting. It's okay to have everyone agree to extend the meeting time, but be careful with this. Not everyone will have the same tolerance for a longer meeting. As people tire, emotions can change and conflict can be a result.
4. Try to minimize or eliminate distractions. Have everyone turn off their mobile phones.
5. Consider having the meeting in a location other than the family kitchen. A private off-site location helps to bring focus to the discussions.

The next few pages provide an outline of how to run your meeting.

Initial Meeting Agenda

Date:

Time:

In attendance:

1. Administration

a. Meeting chair and function

Identify someone to chair the meeting. The chair role can change from meeting to meeting.

b. Notes recorder

Taking notes is important. Someone should take notes – can be simple and point form – and circulate to those who attend and those who couldn't attend or maybe chose not to.

The discussion, captured in the notes, becomes the story. It helps to keep the process moving forward as the notes are there to review for future meetings. This helps to keep from going over the same issues again and again. Distance is not the obstacle it once was. Family members living in Vancouver, for example, can join an online meeting using Skype at virtually no cost.

c. Decorum (optional)

Transition planning discussions can bring out emotion in people. This is not a bad thing and can be positive and helpful. However, in some instances, the emotion can become intense and conflict can result. If there is concern that conflict will occur, include a discussion of what is expected in terms of behaviour. If tensions start to rise, the chair can remind everyone about the agreement on behaviour. This helps to keep the emotions in check.

d. Participation

What should be done if situations occur where a family member may decide that they don't want to participate in any family transition planning? This is unfortunate and can be difficult. If this happens, invite them anyway and keep inviting them. Send them a copy of the notes. They may never participate but it can never be said that they didn't have an opportunity to participate or didn't know what was happening.

2. Purpose of the meeting

a. General discussion and questions

People need to be clear about the meeting and its purpose. Circulating the agenda beforehand will get people thinking. This agenda item is their first chance to talk formally about their thoughts.

There is a chance that discussion will go off topic. The chair is supposed to keep the focus on the agenda but having clarity about the purpose will help to keep the discussion moving forward.

3. Where things are at

a. Personal, family and farm

This item provides the opportunity for family members to talk about their own situations.

Someone should be prepared to talk about how the farm is doing. It should be a general discussion about how things are going. It should not be an in-depth discussion on financial performance.

b. General discussion and questions

4. Where things are at

a. Transition planning process perspective

This item provides the opportunity for family members to talk about the transition planning process, how they see it going and what their thoughts are on the process.

It is an opportunity to have family members gain an understanding of the process and to get other family members' perspectives.

b. General discussion and questions

5. Transition planning specifics

a. Ownership and management transition

There could be some overlap from the previous agenda item discussion.

This agenda item may not be necessary at this time and ***will depend*** *on the family and farm situation. It will allow for a more focused discussion on actual ownership and management transition.*

It could be used as an initial discussion to get some first thoughts about ownership and management transition on the table.

b. General discussion and questions

6. Estate planning specifics

a. Wills, power of attorney, tax, insurance

There could be some overlap in discussions from agenda item 4.

This agenda item may not be necessary at this time and ***will depend*** *on the family and farm situation. It will allow for a more focused discussion on the estate plan.*

It could be used as an initial discussion to get some first thoughts about the estate plan on the table.

b. General discussion and questions

7. Communication processes

Communication through transition planning is vitally important. Some specific discussion on how information is going to be communicated internally (within the family) and externally (advisors) helps to keep the process moving forward and can help to minimize conflict.

a. General discussion and questions

8. Timelines

Everyone needs to be clear on the timelines. When does the plan need to be developed? Implemented? How frequent will the meetings be?

Having agreement on the timelines introduces a degree of accountability, which in turn, keeps the process moving forward.

a. General discussion and questions

9. Concerns and Issues

This is an opportunity for family members to share any concerns or issues they might have that haven't arisen during the meeting or in discussions outside the meeting.

a. General discussion and questions

10. Next steps

The next steps should be clearly understood. Identifying the next steps helps to keep the process moving forward.

a. General discussion and questions

11. Next meeting

There may be overlap with agenda item 10. The purpose is to set a date for the next meeting, which will keep the process moving forward.

12. Adjourn

CHAPTER 3

Phase 1 – Readiness Assessment

- Topic 1: Goals
- Topic 2: Individual Values
- Topic 3: Family Values
- Topic 4: Family First / Business First
- Topic 5: Retiring Generation
- Topic 6: Succeeding Generation
- Topic 7: Financial Performance
- Topic 8: Management Assessment
- Topic 9: Personalities
- Topic 10: Historical Business Development
- Topic 11: Meeting and Communication
- Topic 12: Go / No Go Decision
- Topic 13: Statement of Intent

CHAPTER 3

Phase 1 – Readiness Assessment

This phase includes topics that will help you to determine if you are ready to begin transition planning. Transition planning requires a significant investment of time, money and emotional resources. It is easier for ownership and management to make adjustments **before** beginning to work through the process.

Once you have selected the right planning approach for your business, the applicable table located in the Appendix (pages 195-205) will guide you through select topics to begin planning.

This phase includes a reflection on 13 topics. Each topic is defined as follows:

Topic 1: Goals

Having a clear understanding of your own and other family members' goals is an extremely important part of transition planning.

Topic 2 and 3: Values (Individual and Family)

People differ in their values and beliefs, even in the closest of families. So, it's important that through the transition planning process you understand where you agree and disagree.

Topic 4: Family First/Business First

Transition planning can be an intensive soul-searching exercise at times. Many major decisions require achieving a balance between priorities. Should decisions be based on putting the family first, or the business first? Before proceeding with a transition plan, it is important to know any differences of opinion between family members in regards to this balance.

Topic 5: Retiring Generation

Early in the transition planning process, it is important to write down and talk about your initial thoughts on retirement. Most farm families facing the transition question will have given some thought to how they see the process unfolding. But there will likely not have been any formal review or discussion.

Topic 6: Succeeding Generation

Before committing to the transition process, it is important to write down and talk about initial thoughts on the transition planning process and how they will fit into the transition plan.

Topic 7: Financial Performance

It is extremely important to have a good understanding of your financial situation before proceeding with transition planning.

Topic 8: Management

Transition planning involves the transfer of management from one generation to the next. Families should assess their management practices and use the information to guide development and the transition.

Topic 9: Personalities/Behaviours Audit

People have different personalities and different behaviours. Understanding the differences can be helpful in transition planning and ongoing plan implementation.

Topic 10: Historical Business Development

There are certain events that occur as a farm develops that could be considered monumental or business altering. Writing down and discussing these events helps to understand how and why the farm is where it is today. It becomes an archive of information for future generations.

Topic 11: Meeting and Communication

Regular and structured communication is critical to the transition planning process and to achieving desired outcomes.

Topic 12: Go/No Go Decision

The Go/No Go decision topic is designed to summarize the exercises completed and to determine if the family is ready to proceed with developing a transition plan.

Topic 13: Statement of Intent to Proceed/Defer

Families should indicate their intention to proceed with transition planning, or defer. The statement introduces a degree of accountability to the planning process.

Topic 1: Goals

Goal setting is a powerful process for thinking about your ideal future and for motivating yourself to turn your vision of this future into reality.

The process of setting goals helps you choose where you want to go in life. Physically documenting these goals will make them more concrete to you. By knowing precisely what you want to achieve, you know where you have to concentrate your efforts.

It's helpful to think of goals in the context of personal, family and the farm business. Goals can have different timelines for achievement — current (one year), short term (five years) and longer term (10 years). There can be overlap in the goals.

Goal setting is a two-part process.

- For effective goal setting, you need to do more than just decide what you want to do. You also have to work at accomplishing whatever goal you have set for yourself, the family or the business.
- For many people, it's the second part of goal setting that's problematic. They know what they want to do but have trouble creating a plan to get there. Goals without action plans are just words.

There are no right or wrong goals. Goals should be reviewed for convergence (where goals are aligned) and divergence (where goals are not aligned). Divergent goals should be discussed to see how the different thinking can be addressed.

All stakeholders (usually family but possibly non-family, who have a vested interest in the farm) should complete the goal setting exercise.

The most effective goals consider the SMART principles. They are:

S — Specific: Explicitly list the what, why and how

M — Measurable: Include measurable progress so you can see when change occurs

A — Attainable: You won't commit to goals that are too far out of reach

R — Realistic: Does not mean easy, but doable

T — Timely: Set a timeline for the goal to give you a target to work towards.

Why is this relevant?

Having a clear understanding of your own and other family members' goals is critical to the success of the family farm. If different family member goals are in conflict, problems may arise within the family and the business they are managing together. Families need to discuss their individual goals and then determine how these goals can fit within the business goals.

How will this help transition planning?

1. Setting goals requires time to think through personal, farms and families business scenarios. Putting goals in writing helps make them real.
2. Discussing goals can be a positive experience.
3. Establishing goals can be a great way to measure success. Farms and families are extremely busy. Balancing the relationships within them can be challenging. Individuality can be lost in the mix. The ability to reflect on stated goals helps everyone celebrate these goals as accomplishments.

Instructions

Goals can be separated into three specific areas. They include:

- personal (goals for myself)
- family (goals for my family)
- business (goals for my farm)

Identify a timeline for your goals by separating into short-term (one year), intermediate term (five years) and long-term (10 years).

1. Have each individual family member involved in management fill out a separate goal-setting worksheet.
2. List the things he or she most wants to achieve.
3. After completing the exercise go back through your goals and consider the SMART goal setting principles above.
4. Indicate whether each of your goals meets these criteria and if not, make adjustments or additions where applicable.
5. Collect each individual's answers and include a discussion at the next transition planning meeting.
6. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
7. Consider using an external facilitator if you are concerned about some potential for conflict during this discussion.
8. Store the documents for future reference.

EXAMPLE: Here is an example of what the finished goal setting exercise might look like:

Name: *Faye Sample* Date: *Feb 14, 2013*

Personal:

Short Term (one year)	*SMART
Talk to Rob to talk about our retirement plan twice a month.	*YES*

Intermediate Term (five years)	*SMART
Do more camping.	*NO*
(re-written) Go camping two more times per year starting this year.	*YES*

Long Term (10 years)	*SMART
Spend more time with grandkids (hopefully)!	*NO*
(re-written) Establish routine activities to do with the grandkids, like crafts, bicycling,	
or something like that. Do this two-three times per month.	*YES*

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name: *Faye Sample* Date: *Feb 14, 2013*

Family:

Short Term (one year)	*SMART
Get Carol graduated and off Sample Farm's payroll!	*NO*
Get Carol graduated and off Sample Farm's payroll by Spring 2014.	*YES*

Intermediate Term (five years)	*SMART
Go on one family vacation a year.	*YES*

Long Term (10 years)	*SMART
Stay close with our children and grandchildren.	*NO*
(re-written) Stay close with our children by communicating with them at least. once per week via telephone or internet video chatting.	*YES*

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name: *Faye Sample* Date: *Feb 14, 2013*

Farm Business:

Short Term (one year)	*SMART
Find GOOD full-time help.	*NO*
(re-written) Find GOOD full-time help by the end of 2013.	*YES*

Intermediate Term (five years)	*SMART
Start implementing the transition plan.	*NO*
Start implementing the transition plan by following our action items list and Maintaining open lines of communication with our advisors and John and Rebecca.	*YES*

Long Term (10 years)	*SMART
Upgrade equipment.	*NO*
Upgrade equipment that requires upgrading, and take care not to push our cash flow to the limit.	*YES*

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

How does this apply?

The exercise and resulting family discussion will help members gain a better understanding of each other and their respective priorities for life in general and the business. You will refer back to this exercise in creating your farm's vision.

PLANNING POINTERS:

- There are no right or wrong answers to this exercise.
- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who are not planning on being actively involved in the business, can optionally be included in the exercise.
- Remember, the examples you see in the guide are based on the case study found at start of the guide pages d-j and in the appendix on pages 207-209.

WHAT TO WATCH FOR:

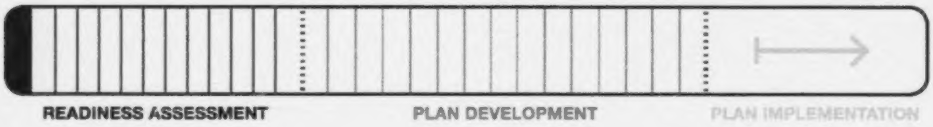
- As you compare and contrast each family member's answers note:
    - Are there major differences that could lead to conflict or act as a stumbling block in completing your transition plan?
    - Were you able to identify any underlying reasons for existing conflict in your operation?
- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.

EXERCISE: Go to the forms appendix pages 207-209 (at the back of this guide) for the Goals exercise.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 2: Individual Values

It's clear that people differ in their values and beliefs, even in the closest of families. So, it's important that through the transition planning process we understand where we agree and disagree. Values are important and lasting beliefs or ideals about what is good or bad and desirable or undesirable. Values are developed early in life, have major influence on a person's behaviour and attitude, and serve as broad guidelines in all situations.

Why is this relevant?

The relevance of this exercise is the fact that understanding others promotes tolerance and accommodation. Goals and life purpose are entrenched in values.

Recognizing your own personal values sets the tone for how you will:

- operate within the family and management group
- direct and manage your family business
- prioritize decisions
- present yourself and your business to the outside world

Recognizing differences in personal values between the family management team will set the tone for how you will:

- make management and investment decisions
- manage together as a group
- allocate tasks and responsibilities
- deal with conflict

How will this aid in transition planning?

1. Writing down values requires that people take the time to think through what's important to them.
2. Prioritizing and discussing values used in guiding farm business decisions can be a very positive experience.
3. Identifying and committing to values will encourage employees to understand their roles and deliver optimum performance.
4. Setting values provides context for making management decisions. For example, a farmer has the option to hire a consultant to market their commodities versus doing it themselves. How does this align with the farm's values?

Instructions

The table below contains a list of common work and personal values. It is not extensive and you should feel free to add any that are important to you.

1. Have each individual family member fill out a personal values exercise.
2. From this list of values circle the **ten** that are most important to you.

EXAMPLE

accomplishment, success
accountability
accuracy
adventure
all for one and one for all
appearance
beauty
belonging
best use of time and resources
calm, quietude, peace
challenge
change
cleanliness, orderliness
collaboration
commitment
(communication)
community
competence
competition
concern for others
connection
content over form
continuous improvement
co-operation
co-ordination
creativity
customer satisfaction
decisiveness
delight of being, joy
democracy
(discipline)
discovery
diversity
ease of use
efficiency
equality
excellence
fairness
faith
faithfulness
(family)
family feeling
flair
(freedom)
(friendship)
fun
global view
goodwill
goodness
gratitude
hard work
harmony
health
helping
(honesty)
honour
improvement
independence
individuality
inner peace, calm, quietude
innovation
(integrity)
intensity
intimacy
justice
knowledge
leadership
love, romance
loyalty
meaning
merit
money
openness
patriotism
peace, non-violence
perfection
personal growth
pleasure
power
practicality
preservation
privacy
progress
prosperity, wealth
punctuality
quality of work
recognition
regularity
reliability
resourcefulness
respect for others
responsiveness
results-oriented
rule of law
(safety)
satisfying others
security
self-acceptance
(self-control)
self-giving
self-reliance
self-thinking
service (to others, society)
simplicity
skill
solving problems
speed
spiritual growth
stability
standardization
status
strength
success, achievement
systemization
(teamwork)
timeliness
tolerance
tradition
tranquility
trust
truth
unity
variety
will to succeed
wisdom

3. Now that you have identified ten, imagine that you are only permitted to have five values. Which five would you give up? List the **remaining five** here.
   a. *Family*
   b. *Teamwork*
   c. *Communication*
   d. *Honesty*
   e. *Integrity*
4. Now imagine that you are only permitted three. Which two would you give up? List the **remaining three** here.
   f. *Family*
   g. *Honesty*
   h. *Integrity*
5. Now eliminate two more to bring your list down to **one**. What is the one value on the list that you care most about?
   i. *Family*
6. Now prioritize top five values.
   j. *Family*
   k. *Integrity (the two values eliminated in question 5)*
   l. *Honesty (the two values eliminated in question 5)*
   m. *Communication (the two values eliminated in question 4)*
   n. *Teamwork (the two values eliminated in question 4)*
7. Make a master list of everyone's top five values and include a discussion at the next transition planning meeting.
8. Additionally, distil the master list of everyone's values down into a summary list of the top five values for the family.
9. Determine how the values will be used. The options are to keep the list as an internal document (only to be shared with family members) or as both an internal and external document (shared with the public). For example, if the option is to make the values an external document, you may decide to post the list in your office, your shop or on your website.
10. Store the documents for future reference.

How does this apply?

Every farm has one or more values, whether they are consciously aware of them or not. Another way of saying it is that a value is a statement of the farm's intention and commitment to achieve a high level of performance on a specific factor. In a company, the ownership group or board of directors determine what values will become core to the organization. For farms, it is the family members' (who are actively involved in the farm) personal values that become the business values.

PLANNING POINTERS:

- Are there recurring values in the number one spot — in the top five? If yes, you may want to include these in a values statement in your vision.
- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who do not plan being actively involved in the business, can optionally be included in the exercise.
- Remember, the examples you see in the guide are based on the case study found at start of the guide pages d-j, and pages 211-212 in the appendix.

WHAT TO WATCH FOR:

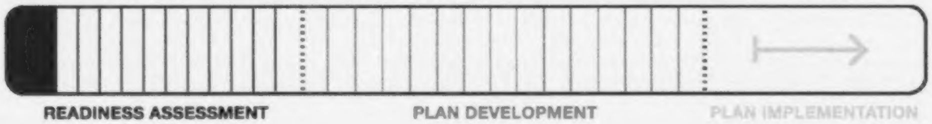
- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.
- If the family cannot decide on a **top five** list, you can alternately agree to use a longer list. Be careful not to make it too long.
- Once established, it is extremely important to live by your values. If you don't live by your values, you will lose people's respect, which can be damaging to the family and business.

EXERCISE: Go to the appendix at the back of this guide for a blank copy of the Individual Values exercise on pages 211-212.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 3: Family Values

It's clear that people differ in their values and beliefs, even in the closest of families. So it's important that through the transition planning process we understand where we agree and disagree. Values are important and lasting beliefs or ideals about what is good, bad, desirable or undesirable. Values are developed early in life. They have a major influence on a person's behaviour and attitude, and serve as broad guidelines in all situations.

Why is this relevant?

Whether or not we are aware of or acknowledge our deepest values, they will motivate us in our decision-making. Individuals joining the family may find your family`s values very different from their own. These differences are neither right nor wrong and understanding where people are coming from creates tolerance and accommodation. Values are important in harmonizing the family and business systems because, if individuals working together have different values, they need to be recognized and dealt with.

How will this aid in transition planning?

1. Prioritizing and discussing values to use in guiding business decisions can be a very positive experience.
2. Identifying and committing to values will help family members with leadership (within the family and with employees).
3. Identifying and committing to values will encourage employees to understand their roles and deliver optimum performance.
4. Setting values provides context for making management decisions. For example, a farmer has the option of 'using' volunteer canola. How does this align with the farm's values?

Instructions

Below is a table with two opposing value statement pairs on each line.

1. Have each individual family member involved in management fill out a separate exercise.
2. For each value statement pair, have them circle the number on the scale they think best describes the strength of the **family's** values and beliefs (the overall family culture)?
3. Collect each individual's answers and include a discussion at the next transition planning meeting.
4. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
5. Store the documents for future reference.

EXAMPLE:

As you compare and contrast each family member's answers note:

1. Are there major differences that could lead to conflict or act as a stumbling block in completing your transition plan?

Freedom is defined by rules.	4	3	2	1	0	[✓ 1]	2	3	4	Freedom is defined by personal choice.
An overall leader is essential.	4	[✓ 3]	2	1	0	1	2	3	4	Groups can provide their own leadership.
Trust others with great caution.	4	3	[✓ 2]	1	0	1	2	3	4	Trust others until they prove unworthy.
Security more valued than adventure.	4	3	2	1	0	1	2	[✓ 3]	4	Adventure more valued than security.
Experience is more valued than creativity.	4	[✓ 3]	2	1	0	1	2	3	4	Creativity is more valued than experience.
Hard work is the key to success.	4	3	2	[✓ 1]	0	1	2	3	4	Planning is the key to success.

How does this apply?

- Every farm has one or more values, whether the people who work on it are consciously aware of them or not. Another way of saying it is that a value is a statement of the farm's intention and commitment to achieve a high level of performance on a specific factor. In a company, the ownership group or board of directors determine what values will become core to the organization. For farms, it is the family members' (who are actively involved in the farm) personal values that essentially become farm business values.
- The exercise and resulting family discussion should help members gain a better understanding of each other's views of the family's overall value system.
- You may refer to this exercise in creating your farm's vision.

PLANNING POINTERS:

- There are no right or wrong answers to this exercise.
- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who do not plan being involved in the business, can optionally be included in the exercise.
- Remember, the examples you see in the guide are based on the case study found at start of the guide pages d-j and also in the appendix on page 213.

WHAT TO WATCH FOR:

- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.
- Enter your answers from the perspective of the farm in its current state, **not** how you think it should be.

EXERCISE: Go to the forms appendix at the back of this guide for a copy of the Family Values exercise on page 213.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 4: Family First / Business First

The family is a system with a primary purpose of nurturing and developing member self-esteem and sharing common values. Each family operates with its own style, role relationships, rules and ways of dealing with stress and expressing emotions.

In contrast, a business system's primary purpose is to use resources to make a profit. Combining a family with a business blurs the lines that distinguish one system from the other.

Family first / business first is a scale with each end represented by the statements in the chart below. The chart lists the different characteristics of a family system versus a business system within the categories of:

- Membership — who belongs?
- Income (compensation) — what are members paid?
- Leadership or promotion — how are members chosen to be leader or promoted?
- Basis of operation — what underlying value drives operations?
- Training — how do members decide what training they need?

Category	Family System	Business System
Membership	Unconditional, based on blood. Personal family, children, spouses.	Conditional, based on qualifications and performance. Employees, managers, customers.
Income (compensation)	Often based on equality.	Based on responsibilities and contribution to the business.
Leadership or promotion	Often based on family position, birth order or gender.	Based on merit (earned).
Basis of operation	Emotion based.	Task oriented.
Training	Based on notion of fairness or as need may dictate.	Based on potential gain or earnings (return).

Why is this relevant?

Understanding your family's approach to business can minimize the potential for conflict. It helps to establish an agreed upon business culture and vision.

Instructions

1. On separate documents, each individual makes either a family first or business first selection by placing an X in the appropriate column for each category.
2. For each individual, note the column the majority of the answers fall in. It represents where on the scale that person feels the business culture resides.
3. Collect each individual's answers and include a discussion at the next transition planning meeting.
4. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
5. Store the documents for future reference.

EXAMPLE

Category	X	Family First	X	Business First
Membership	X	There is a place for all family members		If you're qualified to do the job, you can join
Income (compensation)		Family members are paid more (or less) than the going rate for the job — sometimes based on need	X	Pay is determined by responsibilities and performance
Leadership or promotion		Leadership is bestowed. Title / office is bestowed by birthright	X	Leadership is earned. Company officers control day-to-day operations
Basis of operation	X	Business resources are used for family perks		Strategic resources are used for business purposes (to grow and enhance the business)
Training	X	Outside experience may be less valuable than years of service in the family business		Outside experience is more important than years of service in the family business

How does this apply?

As you compare and contrast each family member's answers note:

- Are there major differences that could lead to conflict or act as a stumbling block in completing your transition plan?
- Were you able to identify any underlying reasons for existing conflict in your operation?

There is no right or wrong answer to this exercise. The exercise and resulting family discussion helps members gain a better understanding of each other and their respective views on the family business' role within the family and vice versa. You will refer back to this exercise in creating your farm's vision.

PLANNING POINTERS:

- Enter your answers from the perspective of the farm in its current state, not how you think it should be.
- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who do not plan being involved in the business, can optionally be included in the exercise.
- Remember, the examples you see in the guide are based on the case study found at start of the guide pages d-j and also in the appendix on page 215.

WHAT TO WATCH FOR:

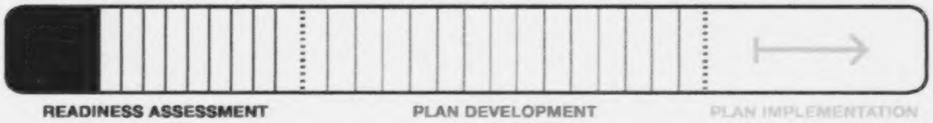
- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.

EXERCISE: Go to the forms appendix page 215 (at the back of this guide) for a copy of the Family First / Business First exercise.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress


READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 5: Retiring Generation

Very early in the transition process, it's important to **write down** your initial thoughts on retirement, the transfer of your ownership and management and your estate distribution.

Why is this relevant?

Getting an early handle on what family members involved in the transition process expect or envision can immediately identify priorities, common and divergent ideas and where more research and thought is needed.

Living Costs

How much money you will need in retirement and what lifestyle you will want are important questions. In most situations, the retiring generation will take money out of the business to provide for their retirement. MAFRD has a retirement calculator that based on a few assumptions, shows how much money you will need in retirement. It shows whether what you have planned will be enough to meet those needs. You can access this calculator by searching www.manitoba.ca/agriculture.

How will this aid in transition planning?

1. Writing down initial thoughts on retirement:
    a. requires that people take the time to think through what's really important to them
    b. helps to get the retiring generation(s) on the same page
    c. helps to identify things and/or raise questions that require additional information
    d. helps to ensure that things don't fall through the cracks
2. Identifying living costs in retirement helps to make sure that the retirement generation has enough money for their retirement.
3. Identifying how much money needs to come from the business helps the business plan for the withdrawals.
4. Identifying and discussing your initial thoughts on retirement helps to ensure that all family members are more likely to be on the same page.
5. Identifying and discussing your initial thoughts on retirement helps to ensure that non-farming family members are informed and included in the discussion.

Instructions

The exercise includes a series of broad questions within more specific categories that require some thinking and discussion during the transition planning process. There are no right or wrong answers.

1. Have all members of the retiring generation complete the questionnaire. This activity can be completed individually or together.
2. NOTE: Topic 6: Succeeding generation exercise should be completed at the same time.
3. The retiring generation should download the retirement calculator from www.manitoba.ca/agriculture and work through the retirement calculator exercise.
4. Write down your answers to each of the questions or mark them as N/A if they are not applicable to your specific situation.
5. Review the answers between the retiring generation(s).
6. Include a discussion about your initial retirement needs at the next succession planning meeting.
7. Compare and contrast your answers with the answers by the succeeding generation in their corresponding questionnaire.
8. Follow-up where you have identified a need for additional information.
9. Store the documents for future reference.

EXAMPLES:

To give you an idea of what your answers should look like, here are a few examples of answers for each section.

Personal and Lifestyle:

1. What do you envision yourselves doing in retirement?

   Spend more time with our grandkids and taking more vacations.
2. How much income will you need to live this way?

   $40,000 - $50,000 per year.

Successor:

1. Who is taking over the family business?

   We know that our daughter and son-in-law will be involved. There may be others.
2. Will he/she/they need additional training to do so and if so, what type(s)?

   Our son comes from a farm background and has an Agriculture business Degree and our daughter is an Occupational Therapist. They will have good educations, but will require on-the-job training as it pertains to our specific farm operations and financial recordkeeping.

Communication:

1. Have you spoken with the successor(s) regarding the transfer of the farm?

   Yes.

   a. If yes, what has been specifically discussed?

      We've spoken about the timeline for our transition out of managing the farm, but not much more than that.

   b. If yes, have the discussions been formal (ex: with notes recorded)?

      No.

How does this apply?

As you share your answers with the succeeding generation:

- Are you discovering needs and wants from the succeeding generation that you were not aware of?
- What things will require more exploration, research or discussion?
- Are there areas that will require compromise?
- Are there areas where you are absolutely not willing to compromise?

PLANNING POINTERS:

- There are no right or wrong answers to this exercise.
- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who do not plan being involved in the business, can optionally be included in the exercise.
- Remember, the examples you see in the guide are based on the case study found at start of the guide pages d-j and also in the appendix on pages 217-218.

WHAT TO WATCH FOR:

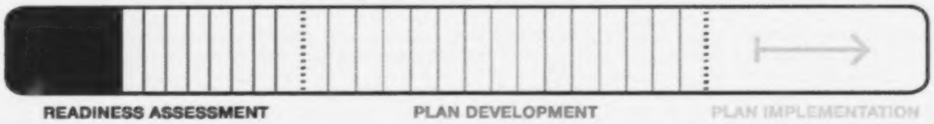
- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.

EXERCISE: Go to the forms appendix at the back of this guide for a copy of the Retiring Generation exercise on pages 217-218.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress


READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 6: Succeeding Generation

Early in the transition planning process, and before any commitments are made, it is important to **write down** your initial thoughts on transition.

Why is this relevant?

Getting an early handle on what the succeeding generation expects or envisions can identify:

- priorities
- common and differing ideas
- where more research or thought is needed

How will this help transition planning?

1. Writing down initial thoughts on transition:
    a. requires that people take the time to think through what's really important to them
    b. helps to get the succeeding generation(s) on the same page
    c. helps to identify things and raise questions that require additional information
    d. helps to make sure that things don't fall through the cracks
2. Identifying and discussing your initial thoughts on transition helps to make sure that all family members are more likely to be on the same page.

Instructions

Below are a series of broad questions within more specific categories that require some thought and discussion during the transition planning process.

1. Have all members of the succeeding generation complete the questionnaire. This can be done individually or as a group.
2. Write down your answers to each of the questions or mark them as N/A if they are not applicable to your specific situation.
3. Review the answers between the succeeding generation(s).
4. Include a discussion about your needs at the next transition planning meeting.
5. Compare and contrast your answers with the answers by the retiring generation in their corresponding questionnaire.
6. Follow up where you have identified a need for additional information.
7. Store the documents for future reference.

EXAMPLES:

To give you an idea of what your answers should look like, here are a few examples of answers for each section:

Personal and Lifestyle:

1. What do you envision yourself doing during your working years?
   - Working hard, raising a family, being active in sports (my own and my family's).
2. How much income will you need to live this way?
   - $70,000 to $80,000 between my wife and me.
3. If your future is farming, will your income decrease or stay the same?
   - Depends on the salary I negotiate with my parents.

How does this apply?

As you share your answers with the retiring generation:

- Are you discovering needs and wants from the retiring generation that you were unaware of?
- What elements will require more exploration, research and discussion?
- Are there areas that will require compromise?
- Are there areas where you are absolutely not willing to compromise?

PLANNING POINTERS:

- There are no right or wrong answers to this exercise.
- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who do not plan being involved in the business, can optionally be included in the exercise.
- Remember, the examples you see in the guide are based on the case study found at start of the guide pages d-j and also in the appendix on pages 219-220.

WHAT TO WATCH FOR:

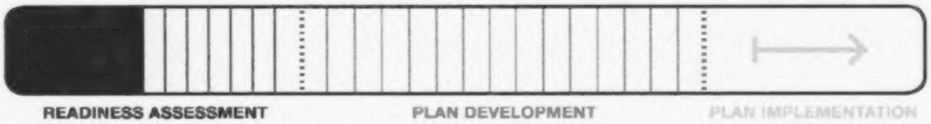
- The succeeding generation should ideally complete the exercise independently.
- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.

EXERCISE: Go to the forms appendix pages 219-220 (at the back of this guide) for a copy of the Succeeding Generation exercise.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 7: Financial Performance

One of the most important tasks in transition planning is analyzing the financial performance of the farm operation. Too many farms move ahead making decisions regarding farm buyouts, estate/inheritance plans and living arrangements without enough financial information. The assumption is that the farm will be able to financially support all these items.

As the idea of children coming back to and eventually taking over the farm is explored, it should be noted that this may create additional financial demands including:

- salary(ies) for the farming children
- additional residences or other living arrangements
- potential farm buyout plans
- farm expansion or diversification

As parents start thinking about retirement needs, this also can create additional financial demands including:

- increased draws to fund non-farm retirement assets (RRSPs, savings accounts etc.)
- potential for lump-sum funding needs at retirement for:
    - housing, vacations, vacation properties, recreational vehicles etc.
- potential for funds to go towards non-farming children

One way to analyze financial performance is to calculate key financial ratios over the last three to five years. Ratios can be compared year over year to measure progress and performance. Financial ratios are a comparison of two or more elements of financial data. They are expressed as percentages (62 per cent) or as ratios (4:1).

Since each ratio tells you a little about the farm's financial story, it's important that they be analyzed collectively. One ratio with good results or one with poor results should not alone be the basis upon which to make management decisions, especially decisions with transition planning implications. It is important to review all the ratios over a three to five year timeline to reveal trends.

Trends with stable or improving performance are a strength when facing a potential intergenerational transfer. Trends with declining performance can be a weakness and should be analyzed carefully before proceeding with transition planning. Are there good explanations for the poor performance? Are there corrective actions that can be taken? These questions should be answered before proceeding.

RATIO CATEGORIES

Ratios can be organized into the four different categories of liquidity, solvency, profitability and financial efficiency. These categories and their corresponding ratios are listed in the tables below. Go to the appendix section (pages 221-232) in the guide to find a document that includes an extended explanation of the ratios and their corresponding benchmarks.

Why is this relevant?

Before getting too far into the transition process, you need to analyze the farm's current and historical financial situation to see if it can support the extra financial draws that transition demands.

How will this help transition planning?

Having a good understanding of your financial situation will help you when you make the decision on whether to proceed with the transition planning process or not.

Instructions

1. Gather your last three to five years of accountant prepared financial statements or tax returns.
    a. If you are using tax return information, you will not be able to calculate historical (past years) ratios that use balance sheet information. If you have prepared an annual statement of net worth for your lender, you could use this information instead of accountant prepared balance sheets.
    b. If you do not have historical net worth statements, create a net worth statement for the most recent year ended December 31. All ratios can then be calculated for at least the most recent year. If you need help creating a net worth statement, consider using the *FarmPlan* software on www.manitoba.ca/agriculture, meeting with your Manitoba Agriculture, Food and Rural Development (MAFRD) Business Development Specialists - Farm Management or meeting with an advisor.
2. Calculate the ratios for each historical year.
3. Look at the trend in each ratio category. Is the performance improving or weakening for each ratio?
4. Compare the trend and each year's results to the listed benchmarks for each ratio.
    a. Is your farm currently in, or trending towards, the caution zone for any of the ratios?
        i. If yes, this may be a cause for concern and reason to pause the transition planning process to see what corrective actions can be taken. Talk to your MAFRD Business Development Specialist - Farm Management or an advisor.
    b. If your farm is currently or trending towards average or good performance for each ratio, it is likely well positioned to continue transition planning.

EXAMPLES

Liquidity - The ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Current Ratio	Current assets / Current liabilities	Can the farm meet current obligations as they come due?	> 2:1	1.5:1	< 1:1	**2.7:1**
Working Capital Percentage of Total Cash Expenses	(Current assets – Current liabilities) / Cash operating expenses	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %	**120.1%**
Debt Structure	Current debt / Total debt	What percentage of total debt is due within the next 12 months?	< 20%	25%	> 35%	**41.4%**

Solvency — the financial ratios that measure the amount of business debt relative to the amount of owner's capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Leverage Ratio* or Debt to Equity Ratio	Total Liabilities / Total Equity	For every $1 in equity, how many dollars of debt are there?	< 4:1	0.65:1	> 1:1	**0.65 : 1**
Equity Ratio*	Total Equity / Total Assets	What proportion of farm assets are financed by the owners?	> 70%	50 to 70%	< 50%	**60.8%**
Debt Servicing	(Net income + Amortization + Interest Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1:1	**3.27 : 1**

* Industry standards based on assets at market value.

** If not already included in expenses (ex: non-corporate farms).

Profitability — the extent to which a business is able to generate profit (income) from use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	**11.1%**
Return on Equity*	Net Income / Owners Equity	What return is the farm generating as a percentage of equity?	> 10%	6%	< 2%	**15.4%**
Capital Turnover*	Gross Income / Capital Assets	How efficiently are assets (capital) being used?	> 40%	20%	< 10%	**31.2%**

* Industry standards based on assets at market value.

Financial Efficiency — the extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	**63.0%**
Contribution Margin	Contribution Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 50%	45%	<40%	**45.9%**
Net Profit Margin	Net Profit / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	**21.5%**
Interest Expense	Interest / Gross Revenue	How much of the gross revenue generated by the farm goes to pay interest?	<10%	15%	>20%	**6.3%**
Amortization Expense	Amortization / Gross Revenue	How much of the gross revenue generated by the farm goes to pay interest?	<10%	15%	>20%	**5.4%**

How does this apply?

If you determine that your farm is financially able to proceed with the transition planning process, congratulations!

You may refer to the financial performance analysis just completed:

- In the Transition Options topic..
  - Can the farm afford the buyout, financing or payment options you are considering?
- in the Compensation topic.
  - Can the farm afford the compensation levels you are considering?
- in the Retiring Generation Needs topic.
  - Can the farm afford the retirement plans and payments you are considering?
- in the Estate Plan Elements topic.
  - Can the farm afford the estate and inheritance plans you are considering?

In Financial Performance – Transition Scenarios topic, you will build on this historical analysis and consider the farm's future financial performance with transition factors being added.

PLANNING POINTERS:

- The options are to use cash or accrual accounting as the basis for calculating the ratios. **Accrual accounting will provide much better information.** In turn, decisions made on superior information will have a better chance of having successful outcomes.
  - If you do not have accrual information, or are not sure, check with your MAFRD Business Development Specialist - Farm Management or to an advisor. **This is very important.**
- You should, as part of your analysis, include a market value for land and quota. You can include a market value for equipment and buildings but these values can be difficult to determine.
- Five years of cash based income statements (with no structural changes on the farm) can sometimes be a close approximation to accrual based statements. However, be careful with this assumption.
- All ratios tell something about the financial health of a farm. They should be analyzed individually for what they are specifically measuring. But, they should also be analyzed collectively. For example, each ratio is like a piece of a jigsaw puzzle. When the ratios are finished, the puzzle is complete and the picture is now clear.

WHAT TO WATCH FOR:

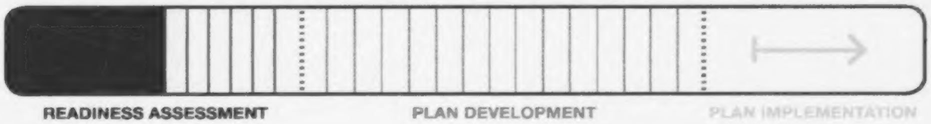
- If you do not have a good set of historic (past years) financial information, you can try to create the statements.
- If you decide to do this, as soon as you find that you have to make an assumption or estimate on a value, stop and proceed no further.
- Decisions made on financial information that is based on estimates are very risky.
- Consider using an independent appraiser for determining market values.
- Watch for different dates used to develop statements of net worth. The different dates can have significant impact on ratios as market inventory, accounts payable and receivable can vary greatly from year to year.
- Different dates for statements of net worth can make the information contained in the ratios less valuable. This in turn will reduce the confidence in the information and its usefulness in decision making.

EXERCISE: Go to the case study at the beginning of this guide pages d-j to see an expanded version of the Sample Farms Ltd. financial statements and ratios. The ratios include formulas and show the numbers that are used to calculate them. You can see where to find the numbers on the financial statements. You can use this information when you are calculating your ratios.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 8: Management Assessment

Ideally, management performance should be aligned with the demands associated with farm transition. This often means that some changes are required. For a lot of farmers, it is difficult to change the way they manage their businesses.

There is no one correct approach to making sure that the appropriate management practices are in place. External management advisors can help with identifying and implementing appropriate resources. But, ultimately, the primary responsibility rests with ownership and management.

From a transition perspective, the important question is: Will the management decision(s) you make get you to where you and the family need to be in the future?

Why is this relevant?

The *Gaining Ground Agribusiness Assessment Workbook* categorizes management in five key areas: marketing, production (operations), human resources, finance, business structure and environmental responsibility. It is an excellent tool you can use to evaluate the management practices on your farm.

How will this help transition planning?

1. The management assessment will identify areas of management that require some attention.
2. The assessment is used to proactively guide the development of action plans that are designed to achieve a successful transition.
3. It will help you to align management decisions with longer term objectives.
4. Discussion related to the management assessment gets everyone on the same page.

Instructions

1. Everyone who is actively involved in the farm should complete this exercise.
2. Contact a MAFRD GO Office to get copies of the *Gaining Ground Agribusiness Assessment.*
3. Each family member should complete an assessment.
4. Review your assessments and look for management practices that show some room for improvement.
    a. **Importantly**, review your management practices from a transition planning perspective.
5. Review your results with a MAFRD Business Development Specialist - Farm Management.

How does this apply?

The exercise is designed to reveal the relative strengths and weaknesses in your management. It is used to identify potential challenges that may require some management attention — especially when you are in the transition planning process.

PLANNING POINTERS:

- The assessment is made up of approximately 100 items. It should take about 30 minutes to complete.
- Review the assessment annually. This will help to keep a focused perspective on your management.
- You **do not** have to become skilled in every area.
- Other family members (often the succeeding generation) can develop skill sets in areas that require attention.
- Another option is to outsource resources for these areas.

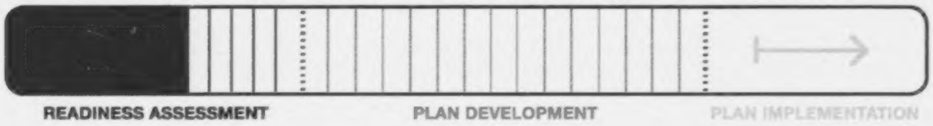
WHAT TO WATCH FOR:

- Expect to see some areas that require some attention. No one has the skill sets to be perfect in all areas of management.
- There will be some variation in the assessments between family members who complete the assessment. This is normal. Use the different opinions as a way to get some discussion going about the management of your farm.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 9: Personalities

Farm families will have a range of different personalities and behaviours. It can be helpful to gain a better understanding of the different personalities and behaviours and how they typically interact.

Often, during the transition process, new relationships within the family are established as the younger generation gets married.

Both are reasons why you might want to work through an exercise (an audit) that provides you with information about the different personalities and behaviours.

People are the way they are. There is no right or wrong — or good or bad — about family members' personalities.

Can the different personalities involved work together effectively to develop and implement a transition plan? This is a question many families need to answer.

Why is this relevant?

Working and living together in a family business can be challenging. As people enter into relationships, additional personalities and behaviours are introduced into the mix. Having a better understanding of the different personalities and behaviours of the people working together helps to promote communication and minimize conflict.

Instructions

1. Have a discussion with family members about differing personalities and behaviours.
2. Decide if you want to work through an exercise that helps you to understand the different personalities and behaviours that exist within the family.
3. If you decide that you'd like to work through an exercise, you have three options.
    a. Option One:
        i. Work through the exercise as shown below.
    b. Option Two
        i. Give someone the responsibility to research different processes that you can use to help you work through the exercise. There are numerous resources available.
        ii. Check with a MAFRD Business Development Specialist - Farm Management for a list of available resources if you are having trouble.
    c. Option Three:
        i. Contact an external facilitator who has expertise in this area to help you work through an exercise.
4. If you chose Option One:
    a. Family members actively involved in the business should complete the exercise.
    b. Family members who may become involved in the business should complete the exercise.

c. Have each family member read through the information below. The exercise has adapted a widely used tool known as the DISC Profile. A more detailed version is available for purchase. Search the internet for more information.

d. Using the table in the exercise, enter the appropriate letter ('D', 'i', 'S', 'C') that each member thinks best describes their personality.

e. Compare and contrast each individual's answers.

f. Use the information to try and understand how family members can work together, sometimes with different personalities.

g. Store the documents for future reference.

EXAMPLE: Personalities

Personality Style	PERSONALITIES - Check which best reflects your Style below
'D' - Dominant	
'i' – Influence	
'S' – Steady	'S' – Steady
'C' - Conscientious	

DiSC Profile (excerpts of information taken from the website)

DiSC is one of many tools available that are used to help families and businesses work through an exercise that looks at the behaviours of individuals.

It is a personal assessment tool used to improve work productivity, teamwork and communication. DiSC is non-judgmental and helps people discuss their behavioral differences.

DiSC profiles help you and your family (could also include non-family members involved in management):

- Increase your self-knowledge
    - how you respond to conflict, what motivates you, what causes you stress and how you solve problems
- Learn how to adapt your own style to get along better with others
- Promote positive communication

Online DISC Profile. Personality Profile Solutions, Inc. Minneapolis, Minnesota

- Create better teamwork and minimize conflict
- Manage more effectively by understanding each other's behaviours.

DiSC is described as – 'D', 'i', 'S', 'C' – in more detail below.

'D' is for Dominance

You place emphasis on shaping your situation by overcoming opposition to accomplish results.

A person with a **'D'** style:

- is motivated by winning, competition and success.
- prioritizes accepting challenge, taking action and achieving immediate results.
- is described as direct, demanding, forceful, strong willed, driven, and determined, fast-paced, and self-confident.
- may be limited by lack of concern for others, impatience and open skepticism.
- may fear being seen as vulnerable or being taken advantage of.
- values competency, action, concrete results, personal freedom, challenges.

Goals:

- unique accomplishments
- new opportunities
- control of audience
- independence

Needs others who:

- weigh pros and cons
- calculate risks
- use caution
- study facts
- think before deciding
- recognize the needs of others

When communicating with the D style individuals, give them the bottom line, be brief, focus your discussion, avoid making generalizations, keep from repeating yourself, and concentrate on solutions rather than problems.

'i' is for Influence

You place emphasis on shaping your situation by influencing or persuading others.

A person with an **'i'** style:

- is motivated by social recognition, group activities, and relationships
- prioritizes taking action, teamwork, and being positive and having energy

- is described as convincing, enthusiastic, warm, trusting and optimistic
- may be limited by being impulsive and disorganized and having lack of follow-through.
- may fear loss of influence, disapproval and being ignored
- values freedom of expression

Goals:

- victory with flair
- friendship and happiness
- authority and prestige status symbols
- popularity

Needs others who:

- concentrate on the task
- seek facts
- speak directly
- develop systematic approaches
- prefer to deal with things instead of people
- take a logical approach
- demonstrate follow-through

When communicating with the 'i' style individual, share your experiences, allow the 'i' style person time to ask questions and talk themselves, focus on the positives, avoid overloading them with details, and don't interrupt them.

'S' is for Steadiness

You place emphasis on cooperating with others within existing circumstances to carry out the task.

A person with a **'S'** Style:

- is motivated by cooperation and opportunities to help
- prioritizes giving support, teamwork and maintaining stability
- is described as calm, patient, predictable, deliberate, stable and consistent.
- may be limited by being indecisive and by a tendency to avoid change
- may fear change, loss of stability and offending others.
- values loyalty, helping others and security

Goals:

- personal accomplishments
- group acceptance
- power through formal roles and positions of authority
- maintenance of status quo and controlled situations

Needs others who:

- react quickly to unexpected change
- become involved in more than one thing
- are self-promoting
- apply pressure on others
- work comfortably in an unpredictable environment
- help to prioritize work
- are flexible in work procedures

When communicating with the 'S' Style individuals, be personal and friendly, express your interest in them and what you expect from them, take time to provide clarification, be polite, and avoid being confrontational, overly aggressive or rude.

'C' is for Conscientious

You place emphasis on working conscientiously within existing circumstances to ensure quality and accuracy.

A person with a **'C'** style:

- is motivated by opportunities to gain knowledge, showing their expertise, and quality work.
- prioritizes ensuring accuracy, maintaining stability, and challenging assumptions.
- is described as careful, cautious, systematic, diplomatic, accurate and tactful.
- may be limited by being overcritical and overanalyzing.
- may fear criticism and being wrong.
- values quality and accuracy

Goals:

- unique accomplishments
- correctness
- stability
- predictable accomplishments
- personal growth

Needs others who:

- delegate important tasks
- make quick decisions
- use policies only as guidelines
- compromise with the opposition
- state unpopular positions
- encourage teamwork
- initiate and facilitate discussions

When communicating with the C style individual, focus on facts and details; minimize "pep talk" or emotional language; be patient, persistent and sensitive.

How does this apply?

- Understanding the different personalities and behaviours helps people who work together.
- A better understanding helps to recognize differences and to potentially to avoid conflict.
- A better understanding helps to achieve a successful transition.

PLANNING POINTERS:

- If you are using an advisor for this step, consider referring to the document *How to Choose and Work with an Advisor* that is found in the appendix (pages 305-308).

WHAT TO WATCH FOR:

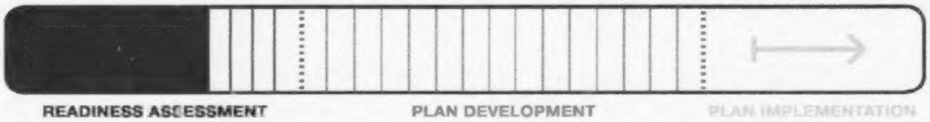
- Consider using an external facilitator if you are having trouble with this exercise.
- Consider using an external facilitator if you are concerned about the potential for conflict.
- Some family members may think the exercise is pointless and may not want to work through the exercise. It's okay for them not to be included. They may decide to participate after they see what the family members who have completed the exercise have learned and how the information helps.

EXERCISE: Go to the forms appendix page 233 (at the back of this guide) for a copy of the Personalities exercise.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress


READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 10: Historical Business Development

There are certain events that occur as a farm develops over time that could be considered monumental or business altering.

Why is this relevant?

Discussing and documenting these events help current owners and managers understand how and why the farm is where it is today. Keeping a diary of these major events, and the circumstances that led to making certain decisions, will help to shed light on similar situations that may occur in the future.

How will this help transition planning?

This exercise can provide historical context for the current decision makers. Knowing what decisions made the farm what it is today can provide guidance for the succeeding generation. A successful transition plan will give succeeding generations the opportunity to influence on the success of the farm.

Instructions

This exercise is best completed by the retiring generation and only one document is required. It may be helpful to enlist the help of the retiring generation's parents if they were involved in the farm history and are able to contribute.

The chart below is broken into year, situation, outcome and significance.

1. Year — enter the year that the significant event occurred.
2. Situation — briefly describe the relevant detail regarding the significant event.
3. Outcome — describe what decisions were made and the shorter term result of these decisions.
4. Significance — describe how this particular event shaped the future of the farm or family and is part of who and what the farm or family is today.

EXAMPLES: Remember, the examples shown here are based on the case study pages d-j.

YEAR: 1974

SITUATION: *Rob and Faye's parents were starting to think about retirement, and Rob wanted to start farming. They decided to sell Rob and Faye 800 acres of land.*

OUTCOME: *Rob and Faye purchased the 800 acres from Rob's parents for $200,000.*

SIGNIFICANCE: *This was the first land purchase that Rob and Faye made. It essentially started their farm career.*

YEAR: 2008

SITUATION: *A neighbouring farm came up for sale, consisting of 1,440 acres and some outbuildings.*

OUTCOME: *Rob and Faye purchased the land and buildings for a price of $1,400,000.*

SIGNIFICANCE: *This was the biggest purchase that Rob and Faye made in the history of their farm.*

How does this apply?

The application of this exercise is to have a record of the farm and family history for the current succeeding generation and for generations to come. As the succeeding generation hears the story of the farm, the goal of the exercise is to have both generations appreciate and understand how the decisions made today can and do affect how the farm is operated in the future. The historical business development will not be referred to in further exercises.

PLANNING POINTERS:

- Start with the most current year and work back.
- Think of family and business events — things like production events (good and bad), weather, major acquisitions or dispersals, accomplishments and global happenings.
- An important part of this exercise is the significance. Try to capture the significance of the event to farm development.
- Audio and video is an option.
- The information should be shared with other family members.
- The information should be reviewed annually to keep the history current..

WHAT TO WATCH FOR:

- The retiring generation should complete the exercise. However, if they are not willing or unable, the succeeding generation can interview family members, using that information to complete it.
- This exercise deals with past events, which may bring up good or potentially bad memories. Please be thoughtful of others if you know a particular event has negative feelings associated with it.

EXERCISE: Go to the forms appendix page 235 (at the back of this guide) for a copy of the Business Development Form.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 11: Meeting and Communication

Readiness Assessment Review Meeting

At this point in the guide, you have completed the core of the readiness assessment. This is an appropriate time to schedule a meeting to share your progress and make a decision about whether or not to proceed with the rest of the transition planning process.

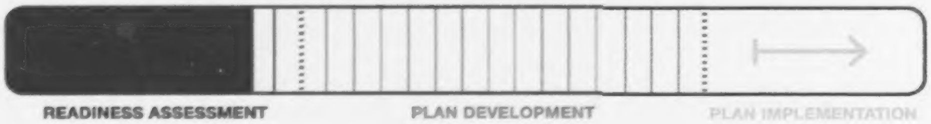
PLANNING POINTERS:

- You may want to include the management team, the retiring generation, and the succeeding generation. Other people can attend as you see fit.
- There is a sample agenda for this meeting included in the appendix section of this guide on page 237.

WHAT TO WATCH FOR:

- There could be some differences of opinion and therefore, disagreement and conflict.
- Consider using an external facilitator if you are concerned about the potential for conflict.

Planning progress



Topic 12: Go / No Go Decision

The go/no go decision topic is designed:

- To summarize the exercises completed in the readiness assessment phase.
- To determine if your family is in fact ready to proceed with plan development phase.

Why is this relevant?

By tying the previous exercises together into a summary document, families can determine if any issues have come up during the previous steps that need to be addressed before proceeding with the rest of the transition plan.

How will this help transition planning?

Simply put, this is the time to make a decision on whether to proceed with a transition planning process or not.

Instructions

1. Complete the go/no go decision exercise as a group.
2. You will use the completed exercises from the Readiness Assessment as references for this exercise. Make sure to have them available.
3. Under each exercise heading, read the introductory question. Discuss the question and add comments as applicable.
4. If you encounter conflict, disagreement or uncertainty during this discussion, you may want to consider a corrective action. A corrective action would be an action or activity the family or individual members should complete to bring the family into agreement on that particular issue.
5. Answer the summarizing question – **"Does the corrective action require us to put transition planning on hold?"**
    a. A **no** answer to each of the ending questions indicates you appear to be ready to proceed to the next steps in completing your plan.
    b. If you have a **yes** answer to one or more ending questions, you should consider putting your transition plan on hold. You should determine:
        i. what your corrective action will be and how you will know when it is completed
        ii. what the timeline is and who will be involved in completing the corrective action
        iii. when will you revisit the readiness of your family to complete the plan

EXAMPLE

Goals

Do we have similar goals for the future of the farm? Do our personal and family goals complement this future? Are our goals in line with transition planning?

Comments:

A major goal for Rob and Faye is to reduce Rob's stress level. John and Rebecca agree with this goal.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Values

Do we have similar values about how a family business should be operated? Do our personal values complement each other's? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

There are some minor differences between Rob/Faye's values and John/Rebecca's values. Overall quite similar.

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

There are some rather large gaps in our plan at this point. We aren't on the same page when it comes to role/responsibility of the transition. We also need to figure out a lot of the finer details of our plan.

Corrective Action (if any):

No major corrective actions are needed. We are hoping that working through the rest of the transition plan will help us make decisions on the details that are lacking at this point.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

We are fully confident that our financial situation will get us through the transition plan. What the kids do after that is up to them!

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Management

Will management skills as identified through the Gaining Ground Agribusiness Assessment enhance or hinder our ability to develop a transition plan?

Comments:

We are not overly worried about the results from this assessment. However, we will definitely be keeping our eyes on the HR area. It is clear that area could use some improvement.

Corrective Action (if any):

None needed immediately. We would like to get better in all areas.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Personalities/Behaviours Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Yes, our personalities seem to be working together quite well so far. No worries here!

Corrective Action (if any):

None needed.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

Historical Business Development

Are there events in our farm's history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

We actually found this exercise to be quite enjoyable. Reflecting on our farm's history and where we've taken it helped us to appreciate the importance of transitioning it successfully in the years ahead.

Corrective Action (if any):

None needed. However, we would like to write a better farm history in the near future. We would like this to be available for future generations.

Does the corrective action require us to put transition planning on hold? (Yes/No)

No.

PLANNING POINTERS:

- Some differing opinion is manageable. You are not required to have everyone in complete agreement on all topic areas.
- Try to determine if differing opinions will be significant enough to require corrective action at this time.

WHAT TO WATCH FOR:

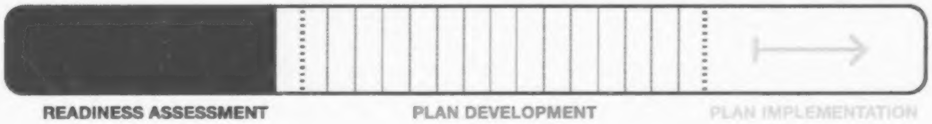
- People can have differing opinions on some or all of the topics. Differing opinions can be helpful if managed correctly. Try to come to a consensus on each topic area.
- In a situation where there are some unresolved differences of opinion, you can proceed to plan development and watch to see if the differences become a problem. If they do, the process can be halted and corrective action taken. This not an ideal situation but certainly can be managed.
- Consider using an external facilitator if you are concerned about some potential for conflict during this discussion.

EXERCISE: Go to the forms appendix pages 239-242 (at the back of this guide) for a blank copy of the Go/No Go Decision exercise.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 13: Statement of Intent

A statement of intent to proceed or defer is designed to formalize and record a family's intent to complete, or not complete, a transition plan following their readiness assessment. It is important that everyone involved, or potentially involved, in the transition knows and understand where things are at from a planning perspective.

Why is this relevant?

This statement creates accountability to the family's intentions and most importantly, puts a desired completion date on the plan. Too often families get started on the process of transition planning only to give up, get stuck or encounter difficulties they cannot overcome. In the event that difficulties are encountered and planning momentum is lost, the statement of intent gives families something to refer back to and reminds them that they are committed to this process. It can be used to build confidence that family members are committed to completing the process.

In the event that a family identifies they are **not** prepared to complete a transition plan, they would fill out a statement of intent to defer. This statement is equally powerful in that members of the family are aware they either have corrective actions to take or have decided that transition planning cannot or will not take place.

The reason for halting the plan is mentioned in the statement and most importantly a date to revisit the plan, if applicable, is included. Completing the statement to defer allows all generations to know where planning and transition is at.

Instructions

1. From your Go/No Go Decision exercise, decide which statement (intent to proceed or defer) you will be filling out.
   a. A **yes** answer to the final question from the Go/No Go exercise indicates you would fill out a statement of intent to defer.
   b. A **no** answer to the final question indicates you would fill out a statement of intent to proceed.
2. Fill out the appropriate statement by filling in the blanks as indicated.

EXAMPLE of Intent to Proceed

Sample Farms Ltd.

STATEMENT OF INTENT TO PROCEED

Rob and Faye Sample of *"Sample Farms Ltd."* intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership. *"Sample Farms Ltd."* intends to have the plan completed and ready for implementation by April 2014.

EXAMPLE of Intent to Defer

Sample Farms Ltd.

STATEMENT OF INTENT TO DEFER

Because we are not clear on everyone's goals, the members of *"Sample Farms Ltd"* are unable to proceed with developing a transition plan for the purpose of transferring farm management and ownership to John and Rebecca. *"Sample Farms Ltd"* intends to readdress this issue on March 31, 2015.

How does this apply?

If you filled out a statement of intent to proceed, keep this document on file. It is your family's commitment to the transition planning process. Schedule meetings and complete exercises in a timely fashion to meet the deadline you have created for yourself.

If you filled out a statement of intent to defer, keep this document on file. It indicates your family's decision to halt the transition planning process. If you have halted the process due to corrective actions that need to be completed, schedule these actions and family meetings in accordance with meeting the deadline you set to revisit the plan.

PLANNING POINTERS:

- If a statement of intent to defer is used, remember to set a date to re-visit the process.
- There can be good reasons why a statement of intent to defer is used. It does not have to mean that there are unpleasant issues to work through.

WHAT TO WATCH FOR:

- It's possible to be in a situation where every indication is that the farm and family is ready to proceed with the transition planning, but find out that one of the generations (usually the retiring generation) is not prepared to proceed. It is better to learn this now than later on.
- Setting a date to re-visit intentions helps to keep the process from completely falling off the rails.
- Time often helps people to get comfortable with the process and what they are committing to.
- Not wanting or willing to sign the statement of intent can be an indication that not all aspects of the readiness assessment have been dealt with in enough detail.
- Refer back to a completed statement of intent to proceed if you run into challenges, such as disagreements or lack of progress, as you work through the planning process.

EXERCISE: Go to the forms appendix pages 243-245 (at the back of this guide) for blank copies of the Statement of Intent forms.

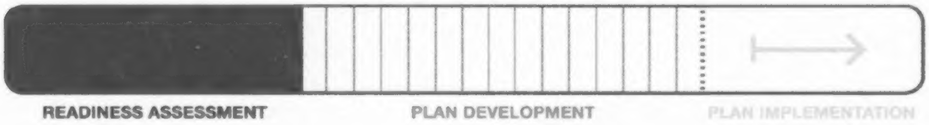
Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

If you filled out a statement of intent to proceed, move on to the Challenges in Transition Planning topic.

If you filled out a statement of intent to defer you have completed all exercises necessary at this time. There is no need for further planning activities until family members are ready to proceed.

Planning progress



CHAPTER 4

Phase 2 – Plan Development

Topic 14: Foundation
Topic 15: Strategic Direction
Topic 16: Meeting and Communication
Topic 17: Transition Options
Topic 18: Preliminary Advisor Review
Topic 19: Estate Plan Elements
Topic 20: Human Resources
Topic 21: Agreements
Topic 22: Deal Breaker Issues
Topic 23: Meeting and Communication
Topic 24: Accountant Review
Topic 25: Lawyer Review
Topic 26: Final Plan Adjustments
Topic 27: Accountant / Lawyer Sign-off
Topic 28: Meeting and Communication

CHAPTER 4

Phase 2 – Plan Development

You are now ready to engage in Phase 2 Plan Development.

Once you have selected the right planning approach for your business, the applicable table located in the Appendix (pages 195-205) will guide you through select topics to begin planning.

This phase includes a reflection on 15 topics. Each topic is defined as follows:

Topic 14: Foundation

Challenges in Transition Planning

Transition planning is well-known to have soft issues that directly or indirectly form part of the transition plan. They should be reviewed to determine how they will affect the planning process.

Guiding Principles

Within the three broad categories (major concerns, planning objectives and strategic objectives) are points that are important to consider when developing a transition plan.

Conflict Management

Transition planning deals with issues that family members can have strong opinions about. Discussions around those opinions can result in emotion and conflict. Families worry about conflict. It can be managed with some proactive attention to developing a conflict management plan.

Resource Team Identification

Transition planning requires input from several different advisors who collectively become a resource team. Many families find it helpful to record the names and contact information for their advisors in one location.

Advisor Information Report

Early on in the transition planning process, but not before the farm family has had some internal discussions about their plan, contact should be made with professional advisors to inform them of the transition planning intentions and progress made to date.

Topic 15: Strategic Direction

Vision

Transition plans are about taking what has been created by the retiring generation and building upon it for the future. Defining what that future is for the farm and family is very important. It helps to put some definition to what people want and what to plan toward. This is vision.

Situational Analysis

Farms operate within internal and external surroundings. They can be defined by examining strengths, weaknesses, opportunities and threats (SWOT). Understanding the situation forms a base from which to proceed with transition.

Risk Assessment

Farm families deal with risk all the time. But, there can be risks that have specific importance from a transition perspective. The assessment helps to identify the risks, from which mitigating actions can be taken.

Critical Issues

What are the things that farm families need to get right to make sure that the transition is successful? These critical issues are found in different areas of management and need to be identified and actions taken to address them.

Financial Targets

Implementing a transition plan will affect the farm's financial performance. Setting targets for key ratios helps to put upper and lower limits on the performance.

Critical Issue Action Plans

Once the critical management issues have been identified, detailed action plans should be developed. Action plans bring accountability to the planning process and implementation, keeping it moving forward.

Topic 16: Meeting and Communication

Regular and structured communication is critical to the transition planning process and to achieving desired outcomes.

Topic 17: Transition Options

Successor Assessment

Transitioning the management to the succeeding generation is one of the most important parts of transition planning and implementation. Farm families find it helpful to work through an exercise that assesses the readiness of the successor to take on the management.

Ownership Options

The retiring generation owns the assets and shares of the farm. There are many different options that can be used to transfer this ownership. The different options should be explored early on and before any final decisions are made.

Business Structure

Business structure complements ownership options. Farm families should understand what different structures are available and how they might apply to their situation.

Financial Performance – Transition Scenarios

Using the farm's past financial performance as a baseline, and using the financial targets that are set, families can measure the impact that different transition scenarios will have on the farm and family's financial performance. This information is used to help make the best decisions possible.

Topic 18: Preliminary Advisor Review

After discussing the different ownership and business structures that are available, and after examining the potential impact different scenarios may have on financial performance, farm families should meet with professional advisors and start to incorporate their feedback into the planning process.

Topic 19: Estate Plan Elements

Estate Distribution

Using information collected from professional advisors, the retiring generation should start to develop their estate plan. The plan will ultimately define how their estate will be distributed.

Wills, Power of Attorney, Executor

Everyone should have a will and have nominated powers of attorney. These and other specific parts of an estate plan should be updated and current as part of a transition plan.

Insurance

Insurance can play an important role in an estate plan and farm transition. Farm families should gain as much information they can about the advantages and disadvantages of using insurance as part of their estate and transition plans.

Topic 20: Human Resources

Management Structure

Transferring management is one of the most important parts of a transition plan. Many farms do not have a formal structure in place. It is significantly easier and preferred to develop a structure that fits how a farm family sees the management transfer happening.

Management Activities

The change in management will be accompanied by a change in activities. Gaining a better understanding of who does what can reduce stress, lessen the potential for conflict and improve overall performance and profitability.

Job Descriptions

The jobs on a farm get done but usually without any structure. A job description helps by bringing definition to work getting done.

Compensation

Compensation is closely linked to the potential for conflict. Developing a compensation plan helps to lessen that potential. It brings definition to how people are getting paid for the contribution they make to the farm and family.

Roles, Responsibilities and Authority

A transition plan without clarity around the different roles and responsibilities family members have can result in confusion, stress and conflict.

Training and Skill Set Development

The succeeding generation will have differing skill sets, abilities, education and training. They will begin to assume more of the management responsibilities at some point. Using the successor assessment, what additional development does the succeeding generation need?

Topic 21: Agreements

Unanimous Shareholder Agreement

An agreement, that applicable family members have read and signed and that properly defines what is to happen in certain circumstances, will help to resolve disputes and lessen the potential for conflict.

Business Agreements

Farms can have several different agreements that underpin business arrangements. Relationships will accompany the agreements. The agreements and relationships will have to be transitioned to the next generation as part of the plan implementation.

Topic 22: Deal Breaker Issues

Before starting work on finalizing and implementing the plan, farm families should step back, review the planning process to date and see if there are any unresolved issues that need to be addressed.

Topic 23: Communication

Regular and structured communication is critical to the transition planning process and to achieving desired outcomes.

Topic 24: Accountant Review

The planning process is nearly finished. Accountants should review what the family is thinking about. Their comments should be incorporated in the plan.

Topic 25: Lawyer Review

The planning process is nearly finished. Lawyers should review what the family is thinking about. Their comments should be incorporated in the plan.

Topic 26: Final Plan Adjustments

The information gathered from the accountant and lawyer reviews should be incorporated into the plan.

Topic 27: Accountant and Lawyer Sign-off

A final review with accountants and lawyers should happen before proceeding with implementation. In a sense, this is the farm family's last chance to make changes. The next step is implementation.

Topic 28: Meeting and Communication

The transition plan is complete. Farm families should determine how, and with whom, they want to share information and their intentions around implementation.

Topic 14: Foundation

Challenges in Transition Planning

There are certain issues within the transition planning process that some families may find difficult. These issues may ultimately slow or stop the transition planning process altogether. A list of 20 common issues can be found in the following narrative. Often referred to as soft issues, they involve personal feelings and emotions. They can be more difficult to deal with than tangible issues such as taxation.

Why is this relevant?

By recognizing that these issues may be a problem currently or during the transition planning and implementation process, families can prepare to address them. There is less likelihood that families will encounter problems that stop or slow their progress towards a completed transition plan if they are prepared to deal with them as they arise or before they arise.

How will this help transition planning?

- Working through a process that examines typical challenges in transition planning gets family members thinking about different parts of the planning process.
- It helps to get everyone on the same page.
- You will learn what and how family members think about different aspects of the planning process.
- You will better understand what things require specific attention.
- This will help avoid conflict when family members have different opinions.

Instructions

1. Family members who are actively involved in the farm business should complete the exercise.
2. Optionally, family members who are thinking about becoming involved, or who are not actively involved at this time, can complete the exercise.
3. Read the following narrative listing 20 common challenges in transition.

Lack of Awareness	Accountability	Fair and Equal	Communication
Getting Started	Selfishness vs. Selflessness	Active and Non-active Children	Management
Planning Drift	Estate Plan Gaps	Entitlement	Tax Planning
Avoidance/denial	Goals and Values	Successor Skill Sets	Risk
Not Wanting or Willing to Commit	Fears	Compensation	Process Facilitation

4. In the table following the narrative, each line lists one challenge. On that line, identify if this item is or may be a challenge for your family.
5. If an item is identified as a challenge, in the corresponding column, decide if that issue:
   a. has been dealt with
   b. has been resolved
   c. needs follow-up to deal with and resolve it, and if so, who will address the issue and when

Challenges in Transition Planning

1. **Lack of Awareness —**
   a. It is common in transition planning to find a lack of awareness of the process involved in developing and implementing a transition plan. The lack of awareness includes the component parts of the process and challenges typically encountered within the process. It also includes the amount of time required to start, work through and finish applying a transition plan.
   b. Another aspect of lack of awareness relates to the life cycle of the family and farm. Where are the family and farm in their life cycles and how does, or will, transition planning fit within them? Transition planning should start at least three to five years before the desired implementation date. Transition planning for an increasing number of today's farms is often best served if it starts much sooner — 20 years or more for a good percentage of farms — because life cycles of farms and families are much different today than in the past.
      i. Obtaining as much information as possible about transition planning will help to overcome any lack of awareness. There is an abundance of information on the Internet. Government offices are a good resource. There are also workshops and seminars that focus on transition planning. Talking to farmers who have worked through, or are working through, a transition plan can be helpful.

2. **Getting Started —**

   a. Transition planning is something that is often discussed and too often deferred. Farmers always seem to have more urgent matters to attend to — especially when it comes to production. Unfortunately, taking transition planning seriously often begins only when an event or crisis forces families to react. It is always less stressful to be proactive. Not knowing where to start or what to do first is one of the most common obstacles farm families face to getting started.

      i. The simplest way to get started is to call a meeting. Of course this requires that one person takes action, but this action by one person can kick-start the process and get everyone involved.

      ii. There are other tactics that can be helpful in getting started, such as accountability and process facilitation. Creating accountability within the farm family by having someone lead the process or simply arrange a first meeting can help in getting started. You can get someone from outside the family to help with process facilitation and assign them with the responsibility to arrange the first meeting. Families find this helpful, if only to get the process started. They can continue on their own afterwards, if they so choose.

3. **Planning Drift (Procrastination) —**

   a. Just like getting started, continuing to advance the transition plan is easy to leave on the to-do list. Often families encounter conflict, feel overwhelmed by the enormity of the project or are uncertain how to proceed. As a result, they struggle to maintain momentum. If left too long, families forget what they have discussed and decided. Circumstances may also have changed. The result is that the value of getting started is lost as they must essentially start again.

      i. Accountability and process facilitation, discussed in more detail below, can be helpful in avoiding procrastination. Also helpful is deciding on an end date for the planning. When does the family need to have its transition plan completed and ready for implementation? Once determined, all meetings and related decisions to meet this deadline can be prescheduled. Meetings with advisors can also be prescheduled so that there is pressure to have certain transition items discussed or decided in advance of the meetings. It also helps to ensure that the advisors are not holding up the process either.

4. **Avoidance/Denial —**

   a. Farm transition can be an emotional and difficult process. Certain personalities would rather avoid the topic altogether while others choose to deny their inevitable retirement and mortality. It is easier to do nothing — for a while — but there are too many stories of transition planning gone wrong to allow avoidance or denial to halt your farm's progress. This is most typically a retiring generation challenge. However, the do nothing philosophy can also plague successors who do not want to accept the future where Mom and Dad are no longer able to work on the farm.

    i. Transition planning is not about writing a death certificate or issuing a layoff notice. Nor is it about transferring ownership and management responsibilities over to the incoming generation in one day.

    ii. Helpful tactics include talking about the issues and addressing individual and family fears. This should bring clarity to the issues and provide some relief. If one or more of the generations continue to use avoidance or denial in confronting transition on the farm, seek help through facilitation.

5. **Not wanting or willing to commit —**

    a. This challenge is different from avoidance/denial in that families accept the need for transition planning but are unwilling to commit to the process. The reasons for this unwillingness are often similar to avoidance/denial:

        i. From the retiring generation's perspective, this is lack of desire to talk about or commit to winding down or retirement.

        ii. From the succeeding generation's perspective, this is anxiety about the responsibility of becoming the main decision maker.

    b. One way to approach this challenge is to develop a series of smaller commitments. For example, commit to one meeting together or with an advisor. Solve one issue at a time. However, be on the lookout for procrastination. Once the process has been started, formulate a strategy that will maintain momentum and keep the planning going until it has been completed.

6. **Accountability —**

    a. The lack of accountability can be real or perceived.

    b. Many plans are derailed because no one feels responsible or accountable to keep the process moving forward. It does **not** have to be solely one person's responsibility but there is a far better chance of a successful outcome with fewer people in control.

    c. Roles and responsibilities may change as the plan evolves and the business changes. There can be too many assumptions being made about who is in charge. This can result in things falling through the cracks with people assuming that someone else was responsible. At the least, this situation can derail the process and cause frustration. At the worst, it can result in conflict and financial costs where, for example, tax issues are not optimally managed.

    d. There are not many people who want the hassle of nagging their family to attend meetings or to complete transition planning duties but this is exactly what is needed.

        i. Accountability does not have to be one person's job, unless of course he or she is willing to take on that role. An option is to have the family decide who will be responsible for elements of the plan, contacting advisors, scheduling meetings etc.

        ii. Whether the decision is to have one person charged with accountability or to assign specific individuals with specific responsibilities, it is critically important to clarify roles, authorities and accountabilities during the planning process and eventual transition.

        iii. Accountability to a third party, such as a consultant or advisor, is an option where families do not, or cannot, take on the responsibility.

7. **Selfishness vs. Selflessness —**

   a. The retiring generation may swing between adequate consideration of their needs and wanting to get market value out of their life's work. In most situations, the latter often far exceeds the former. The succeeding generation may struggle with wanting their parents to get what they deserve out of life while at the same time wanting a break on farm asset prices or payment terms. There is a balance that can be difficult to achieve, between looking out for oneself and looking out for someone else.

   b. The parent/child relationship is usually deeply grounded with parents wanting to ensure that their children are well taken care of and are given every opportunity to succeed. It is common to find situations where parents will make personal sacrifices to minimize the risks their children might have to endure.

      i. There is a fine balance between:

         - being realistic about future financial needs and wants
         - seeing the next generation get off to a good start
         - Mom and Dad's fulfillment of retirement dreams

      ii. Parents, being the retiring generation, should make sure **their** needs are considered before the needs of others. This may appear to be somewhat selfish. However, the retiring generation does not have the luxury of time to fix a situation where they end up in a financial shortfall in their retirement because they were too selfless.

8. **Estate plan gaps —**

   a. An estate plan differs from a transition plan. A transition plan, where the intention is to transfer ownership and management to the next generation, must include an estate plan. In situations where there is not going to be any inter-generational transfer, a transition plan is not required. However, an estate plan **is still** necessary. An estate plan examines tax strategies, contingencies (power of attorney for example), wills, insurance and savings (a retirement revenue stream that does not come from the farm). Often, elements of an estate plan are missing.

      i. As part of the transition plan, make sure the estate plan is entirely completed as this can affect the outcome of the plan. A lawyer and an accountant should be consulted on a regular basis to make sure wills and tax strategies are current. Investment and insurance advisors should be consulted as well, but this depends on the preferences and priorities of the farm family.

9. **Goals and values —**

   a. It is natural and common for there to be differences between the goals and values of the retiring and succeeding generation simply due to their respective stages in life. From a business perspective, the retiring generation will most likely be concerned with conserving equity, minimizing risk and securing funds for retirement. The succeeding generation will most likely be concerned with growth that can include borrowing money, risk, and improving the farm cash flow.

      i. These differences need to be understood and then dealt with in the transition plan. Start by actually recording and sharing goals and values amongst family members. Until each person's desires are made known, it can be difficult or impossible to know what differences might exist and how to deal with them. The differences do not necessarily result in conflict but this can be an unfortunate outcome.

10. **Fears —**

    a. Many fears come to light during the transition planning process. Individual fears around control (where the retiring generation will at some point have to give up managerial control), wealth (where equity, built up over a long and successful farming career, can be eroded) and conflict must be dealt with in order to effectively plan transition.

       i. The first step to addressing fears is to acknowledge that they exist. The second step is to communicate to others that they exist. The third step is to develop tactics that will mitigate the fears. Real caution should be used before proceeding with implementing a transition plan without having properly addressed people's fears.

11. **Fair versus equal —**

    a. Equal is not always fair and fair is not always equal. This principle applies to estate elements and related distribution, ownership and management transfer and the division of labour. Parents often become stuck and unable to proceed with transition plan development and implementation when trying to treat children equally. Children can get caught in this trap as well but must recognize that part of growing up is earning and proving their value to the family business. Each family must work to find a balance between fair and equal that can be accepted by all stakeholders. It is possible to arrive at equitable arrangements but this principle is completely different than trying to achieve an equal arrangement.

       i. It is generally accepted that, in transition planning, fair and equal only has to make sense to the retiring generation. They've taken the risks and built the business to where it is today. They should get to decide what they want to do with it.

12. **Active and non-active children —**

    a. The challenge of active and non-active children, referred to here, is not about how they will be treated in the final transition plan but how they will be involved in the actual planning process. Some families will want all children at all meetings and others will keep non-farming children advised when they decide it's necessary.

        i. In general, an invitation to the non-farming children opens communication. It gives them the opportunity to voice concerns and opinions. It can help to dismiss any myths they have, or might develop, about Mom and Dad's relationship with the farming children. However, during the planning process, many personal and financial issues come to light and individual privacy wishes need to be respected. This can even mean that a particular family member does not actively participate in the planning.

    b. Many families experience situations where one or more family members actually refuse to participate in the planning process. There can be several reasons for this, ranging from immaturity to geographic distances to a general lack of interest.

        i. Participation cannot be forced. In situations where a family member is not participating, it is strongly recommended to continue to include them in the process. You can do so by inviting them to meetings, giving them related information and keeping them informed of decisions. By doing this, there can be no change of heart in the future where the non-participating family member declares that he or she wasn't given a chance to participate.

13. **Entitlement —**

    a. Feelings of entitlement are common in transition planning. Children who have been working on the farm will often feel entitled to a greater share of the farm and their parents' estate than siblings who have not. Siblings who have not been working on the farm feel entitled to their share through birthrights. The retiring generation feels entitled to spend the equity that they have earned as they please. These feelings must be acknowledged, balanced and incorporated into the transition plan.

        i. A first step in tackling entitlement is to develop and share goals and values. Goals and values can set the foundation for transition plan development and implementation. They become the common interest from which to proceed with planning. Building on common goals and values and focusing on how the family can make compromises and work together, helps.

14. **Successor training and skill set development —**

    a. Transferring the management from one generation to the next is one of the most important aspects of transition planning. Given the challenge of farms today, management ability and practises are critically important to sustained success of the business. Therefore, making sure that the succeeding generation has the necessary skill sets required to take on the managerial responsibilities should be a top priority. The focus should be on all aspects of management and not just operations.

    i. Generally, successors need management, leadership and other training before they are ready to take over the business. There are several very excellent programs that provide the succeeding generation with opportunities to improve their management abilities.

15. **Compensation —**

    a. In a farm business, the owners, managers and labourers are often the same people. There is a long list of compensation for these roles. Dividends, wages, bonuses, personal loans, gifts (housing, school, vehicles,) training, perks (vehicles, vacations, trips, business/ personal expenses), ownership and equity gains in land, inheritance are examples. Finding a balance between these forms of compensation can add challenges to the transition plan.

        i. A formal compensation plan outlines exactly how money will flow out to family members and under what terms, including performance expectations.

16. **Communication —**

    a. Families must communicate, both internally and externally, for the transition planning process to flow smoothly. If advisors are not kept abreast of discussions and potential decisions, they cannot provide valuable input. If there is conflict or concern around discussions or decisions but it is not communicated, there is no opportunity for resolution. Most importantly, individuals cannot provide input if they are not given the opportunity to do so. Suggestions to promote communication include the following.

        i. Conduct meetings according to an agenda, take notes and circulate them to everyone in attendance and others as necessary.

        ii. Ensure all stakeholders are informed about transition planning progress. Make sure they have an opportunity for input where applicable.

17. **Management —**

    a. Management is one of the most important aspects of transition planning. Management related concerns should include:

        i. a discussion and agreement about a business-first or family-first approach to managing the farm

        ii. planning that connects financial performance and human resource management

        iii. agreement on investment objectives and priorities

        iv. discussion and agreement on major concerns such as strategic direction, planning priorities, investment priorities and ownership guidelines

18. Tax planning —

a. Tax implications related to transition planning are complex and should always involve the advice of a professional. Tax implications can be very costly if ignored. For example, deemed dispositions on death, forced sale of assets to pay tax. However, it is important to not let tax implications drive transition as this may lead to a plan that is not easily understood, difficult to implement and impossible to work within.

    i. Work closely with your accountant regarding the tax implications of your transition plan.

19. Risk —

a. Risk is a reality in agriculture and can take many forms. Management is required to mitigate the risks. It is preferred to proactively identify risks that the farm may encounter, measure the probability that a risk will appear and then measure the impact that the risk, if it did appear, would have on the business.

    i. Mitigation plans can be developed for potentially significant risks (high probability and high impact).

b. Individual family members will have different personal tolerances for risk. Usually, as people age, their tolerance for risk decreases. On the other hand, younger people have a greater tolerance for risk. So, it is common for there to be differences of opinion between the retiring and succeeding generation when it comes to decisions that include elements of risk. A better understanding of risk and personal risk tolerances may help to minimize conflict.

    i. Each family member should work through an exercise that helps them to gauge their personal risk tolerance.

    ii. Family members should then discuss their risk tolerances, recognizing that the differences do exist. They should include the differences in discussions about transition plan development and related management decisions.

c. There are risks that are generally more closely associated with transition planning. The five Ds of death; divorce, disability, dispute and disaster should be considered and, if and where possible, contingency plans formed.

20. Process facilitation —

a. Some challenges may be better addressed or managed through a facilitated process. A facilitator can address the challenges of getting started, planning drift, accountability and communication, while helping the family discuss issues that may be difficult to tackle on their own. The right facilitator can help your family negotiate emotions, conflict, financial and legal matters.

    i. What are the traits your family needs in a facilitator? Do you need a mediator? A financial expert? A motivator? Look for a professional who will meet your family's specific needs. For more information, see the advisors document in the appendix on pages 305-308.

EXAMPLES

Challenge	Applicable/Not Applicable	Reviewed or Dealt With	Outstanding Issue Resolved	Follow-up Required	By Who? When?
1. Lack of Awareness	*Not Applicable*				
2. Getting started	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John – ASAP*
3. Planning drift	*Applicable*	*Yes*	*Yes*	*Maybe*	*Ongoing monitoring*
4. Avoidance/Denial	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye – ASAP*
5. Commitment	*Not Applicable*				
6. Accountability	*Not Applicable*				
7. Selfishness vs. Selflessness	*Not Applicable*				
8. Estate plan gaps	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye – within one year*
9. Goals and values	*Applicable*	*Yes*	*Yes*	*Maybe*	*Ongoing monitoring*
10. Fears	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John, Rebecca- ASAP*
11. Fair versus equal	*Not Applicable*				
12. Active and non-active children	*Applicable*	*Yes*	*N/A*	*No*	
13. Entitlement	*Not Applicable*				
14. Successor Training & Skill Set	*Applicable*	*Yes*	*No*	*Yes*	*Rob, Faye, John – ongoing*
15. Compensation	*Applicable*	*Yes*	*Yes*	*No*	
16. Communication	*Applicable*	*Yes*	*No*	*Yes*	*All parties – ongoing/ASAP*
17 Management	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye, John, Rebecca*
18. Tax planning	*Applicable*	*No*	*No*	*Yes*	*Rob, Faye – ASAP*
19. Risk	*Not Applicable*				
20. Process facilitation	*Not Applicable*				

How does this apply?

If you have marked an item for follow-up, you may want to create a more specific action plan for the item. In addition to who and when, the action plan should include:

- listing specific steps to take for follow-up and attaching a time line to each of these steps
- listing any specific materials or resources that will be needed to complete the follow-up
- deciding how often will you monitor the follow-up item
- deciding who will be responsible for monitoring
- deciding how you will know progress is being made

Addressing the challenges in transition planning that apply to your farm and developing specific follow-up plans to address them will help your family reach the end goal of a successfully completed farm transition.

PLANNING POINTERS:

- The challenges identified are common to farm transition but may not appear all at the same time. Refer to this topic during planning and implementation to see how the challenges are being managed.
- Have someone be responsible for keeping the checklist current and for making sure things are getting done.
- Include family members actively involved in the farm business.
- Optionally include:
    - family members who are thinking about becoming actively involved
    - family members who are not actively involved

WHAT TO WATCH FOR:

- Not all challenges will be encountered by all farm families.
- Consider using an external facilitator if you are concerned about conflict that may come from one or more of the challenges.
- Consider using an external facilitator if you find it difficult to lead a discussion on some or all of the challenges.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Challenges in Transition Planning exercise on page 247.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Guiding Principles

The guiding principles survey is designed to uncover business priorities that will affect each family member's perspective on the transition planning process. Within the three broad categories below (major concerns, planning objectives and strategic objectives) are points that are important to consider when developing a transition plan.

Major Concerns:

Different parts of farm management may be of concern to families as they work through the transition planning process.

Planning Objectives:

Planning objectives are different planning goals used when families who farm together decide they need to get some things solved.

Strategic Goals:

These are goals for the business that have a longer timeline than day-to-day objectives. They define what you want to accomplish and how you want the operation to look in the future.

Why is this relevant?

This survey is more in-depth than the goals exercise you completed in chapter one. It identifies specific concerns, planning and strategic objectives for the farm. By completing the survey, each family member will have thought about priorities for the farm and the transition planning process as a whole. The resulting discussion helps to identify where family members may not all be on the same page regarding the future of the farm. Those differences of opinion can be addressed before proceeding too far with developing the transition plan.

How will this aid in transition planning?

This exercise:

- helps to promote communication and discussion about important topics as they relate to transition planning
- helps to get people on the same page
- helps to lessen the chance for conflict

Ag Planner IV. Don Jonovic. Family Business Management Services, Inc. Cleveland, Ohio

Instructions - Major Concerns

In the exercise there are 15 different items that may be of concern in your business.

1. Each family member should fill out a survey individually.
2. As you read each statement, consider if you are worried that the issue is now or is likely to become a problem for your family or business in the foreseeable future.
3. The more concerned you are, the higher the number you should circle.
4. If you are not sure about an item, that means there is a possibility the item is or will be a problem, so rate that item in the somewhat concerned range, 6 to 3.
5. If you are sure the item is not important, circle a number close to 0.
6. Collect each individual's answers and include a discussion at the next transition planning meeting.
7. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
8. Store the documents for future reference.

Instructions – Planning Objectives

In the exercise there are 15 different planning objectives that may be important to you. Each family member should fill out a survey individually.

1. As you read each statement, consider how important is it that your family take on that particular challenge and get it done?
2. The more important you think the item is, the higher the number you should circle.
3. If you are not sure, that means you think the item could be important, so rate it in the somewhat important range, 6 to 3.
4. If you are sure the item is not likely to be important circle a number close to 0 for that item.
5. Collect each individual's answers and include a discussion at the next transition planning meeting.
6. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
7. Store the documents for future reference.

Instructions – Strategic Objectives

In the exercise there are seven different opposing statement pairs of strategic considerations on your farm.

1. Each family member should fill out a survey individually.
2. As you read each statement pair, consider which of the two opposing goals or standards on each line is more important to you, and by how much.
3. Mark the one number — and one number only — on the line that represents the best answer for you.
4. **Try to avoid selecting 0, which means you are truly undecided about relative importance.** Think more deeply. Usually you will be able to decide which is more appropriate for you. Often it's best to follow your first inclination.
5. Collect each individual's answers and include a discussion at the next transition planning meeting.
6. Compare and contrast each individual's answers, looking for areas of agreement and disagreement.
7. Store the documents for future reference.

How does this apply?

As you compare and contrast your answers as a family, note any major differences or similarities.

- Are there major differences that could impede the transition process?
- In what ways can you capitalize on similarities for the success of the farm?

If you find that there are major differences of opinion, try to find common ground. Often, the differences of opinion can be resolved. Consider using a facilitator or advisor to assist in working through the differences of opinion if the differences are severe.

There often are the natural differences in priorities between the retiring and succeeding generations. This is simply due to their respective stages in life. The retiring generation is naturally more concerned with preservation of their wealth (equity) and keeping to known paths of success. The succeeding generation may naturally be more inclined to take on risk and try new methods or business practices.

These differences must be reconciled within the transition plan. Failure to do so can result in conflict or transition plans that are unsuccessful. You will refer back to this exercise in the risk management and critical issues topics.

PLANNING POINTERS:

- Differences of opinion can sometimes simply be a different interpretation of the statement.
- There is as much to learn from areas where family members agree as there is from areas where they don't agree.
- Try to build on agreement.
- Not all of the statements will be relevant to all farm families.

WHAT TO WATCH FOR:

- Differences of opinion will sometimes not be resolved. This may or may not be a problem. Watch to see if and how these differences of opinion may arise at a later point of time in the transition planning process.
- Consider using a facilitator or advisor to assist in working through the differences of opinion if the differences are severe.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Guiding Principles exercise on pages 249-251.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Conflict Management

Conflict occurs when people have actual or perceived, opposing ideas, needs, values or wishes. It is impossible for two or more people who have their own ideas, needs, values and wishes to live and work together without any conflict. It is a normal part of human interaction. The opportunity for conflict continues to grow as people spend more time together and as more decisions are made that affect each party.

Conflicts that arise within a farm family often take on a deeper meaning. When family members have disputes about business issues, usually more than just a business decision is at stake. The people involved often bring with them a history of expectations, assumptions and old hurts.

Why is this relevant?

Though we may all experience conflict, it is the management of conflict within a family that enables us to maintain positive relationships and achieve farm business success.

How will this help transition planning?

- Having all family members read about and discuss conflict management can help to avoid conflict.
- Constructively and proactively dealing with conflict can be a positive experience.
- Constructively and proactively dealing with conflict can bring energy and confidence to the transition planning process.

Instructions

1. Read the information on conflict management that is provided in the forms appendix on pages 253-255. You'll see that it's separated into the following categories:
    - sources of conflict,
    - conflict management styles
    - strategies to find win-win solutions
2. Discuss among family members at the next transition planning meeting.
3. Determine what will happen if conflict becomes an issue or may become an issue. It is much easier to figure out what to do about conflict before it appears.
4. Discuss whether or not you will use an external facilitator to assist where family members are concerned that the potential for conflict exists.

How does this apply?

As your family continues to work through the transition planning exercise:

- Be aware of the sources of conflict that could be applicable to your situation.
- Be aware of your own particular conflict management style and how this style affects resolving the conflict at hand.
- If you do encounter conflict in your discussions, refer to and apply the strategies to find win-win solutions.

PLANNING POINTERS:

- Family members actively involved in the business should complete the exercise.
- Family members who might be actively involved in the business at some point in the future should complete the exercise.
- Family members who are not currently actively involved, or who are **not** planning on being actively involved in the business, can optionally be included in the exercise.

WHAT TO WATCH FOR:

- Consider using an external facilitator if you are concerned about some potential for conflict during the discussion.
- Not all conflict is bad. Conflict can be a positive experience when it leads to creative ways of finding solutions to what caused the conflict.
- Conflict is often unresolved. There is no perfect solution to deal with unresolved conflict. Sweeping unresolved conflict under the carpet is often not the best choice in dealing with it.

EXERCISE: Go to the forms appendix at the back of this guide for blank copy of the Conflict Management information on pages 253-255.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Resource Team Identification

Throughout the transition planning process, different advisors may need to be consulted about potential decisions or the planning process in general.

Why is this relevant?

The resource team identification template provides a summary go-to place for names, numbers and other relevant information about advisors involved in your transition plan.

How will this help transition planning?

In very grim circumstances when one or both retiring generation members are accidentally deceased, it is extremely helpful to have the contact information for key resource people readily available.

Instructions

Fill out the chart with the following information:

1. Resources — in each table row, list a particular specialty or resource area where the farm family has an advisor. The table comes with suggestions of common transition planning resource areas.
2. Person/firm — list the individual's name that your family works with and the firm he or she is from.
3. Contact information — list the individual's phone number, email or other contact information.
4. Comments — list any other comments that may be pertinent to the individual's involvement in the transition plan.
5. Post the resource team identification chart in a common area that is accessible to all family members.
6. Consider sending a copy to each advisor so they know who else is on your resource team.
7. Update the Resource annually or as changes occur.
8. Store the documents for future reference.

How does this apply?

You may refer to this chart to contact the family's resource personnel as needed. You will refer to this contact list in the next step, Advisor Information Report (page 88) and for the Advisor Review topics (pages 137, 180, 182 & 186).

PLANNING POINTERS:

- There may be more than one person per resource area.
- Refer to how to choose and work with and advisor in the appendix on pages 305-308 for helpful hints on selecting and getting the most out of an advisor.

EXERCISE: Go to the forms appendix at the back of this guide for blank copy of the Resource Team Identification exercise on page 257.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Advisor Information Report

The purpose of the advisor information report is to begin a conversation with your advisors regarding your preliminary plans for the farm transition. A completed advisor information report would include the following sections:

1. advisor(s)
2. family members involved (now and in the future, as applicable)
3. plan completion date (end date for transition plan development)
4. summary of your thoughts on your transition plan
5. other relevant information

Note: An advisor report is completely optional as you may already have regular contact with your advisors regarding the progress of your plan. The report is designed to provide a formal progress report and you may feel this is unnecessary in your situation.

Why is this relevant?

Approaching your advisors as soon as possible with preliminary transition plans will:

- allow for feedback while changes are still possible
- provide plenty of time to prepare information and make adjustments as required
- establish or improve communication with your advisors so they will feel part of the overall process
- reflect positively on your management abilities
- provide you with information that you can use in the development of your transition plan

How will this help transition planning?

- Having your advisors all know which other advisors are part of your team is very important.
- Recording information about your plan helps to keep the plan moving forward.
- This exercise promotes communication, which is extremely important in transition planning.

Instructions

1. Fill out the applicable sections of the report found in the forms appendix on (pages 259-260) with the following information:
   a. Advisors — list advisors in all areas that are helping you complete your plan. Refer to your resource team information chart.
   b. Family Members involved — list the family members that are directly or indirectly involved and what level of participation or contact they will have in developing the plan.
   c. Plan completion date — show the date you plan to have your transition plan completed.

  d. Summary of transition plan to date — include any thoughts or ideas your family has about the planning process to date.
  e. Other relevant information — includes any additional thoughts or explanations that you would like to go along with your advisor report.

2. Make sure each advisor gets a copy.
3. Note that if your transition planning process extends over an extended time and if significant changes happen during that time, update the Report and forward to each advisor.
4. Store the document for future reference.

EXAMPLE

1. Advisors

Area of Expertise / Profession	Name	Firm	Contact Information
Accounting and tax	John Money	Money & Money	
Legal	Andy Will	Will & Company	

2. Family Members Involved

Name	Relationship	Direct or Indirect Involvement	Contact Information
Rob	Husband	Direct	
Faye	Wife	Direct	
John	Son	Direct	
Rebecca	Daughter-in-law	Direct	
Carol	Daughter	Indirect	
Brad	Carol's partner	Indirect	

3. Transition Plan completion date

Date: April 2014

4. Summary of Transition Plan to date

We have:

- Established our goals.
- Identified our values.
- Worked through an initial discussion on our retirement needs.
- John and Rebecca have put together some of their thoughts on becoming involved in the business.
- We reviewed our financial information and looked at management.
- We have decided to go ahead with developing a transition plan.

5. Other Relevant Information

We have some additional work to do:

- We're not sure about our tax situation.
- We've not had much chance to talk to Carol and Brad.
- We think we should be talking to someone about life insurance.

How does this apply?

Once completed, present this information report to any advisors you would like to keep informed of your transition plan progress. If you present an information report to your advisors, be prepared to answer questions about your family's progress. Ensure you provide a family contact person and their information to advisors for the purpose of answering questions.

PLANNING POINTERS:

- The transition plan summary to date should simply be the important points you wish to highlight.
- Other relevant information could include key questions that you want to keep top of mind.

WHAT TO WATCH FOR:

- Working with some advisors requires confidentiality agreements to be agreed upon and upheld. This can be for the protection of the advisor, the client, or often both. Confidentiality may require that the details of your relationship should be excluded from this exercise.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Advisor Information Report exercise on pages 259-260.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 15: Strategic Direction

VISION

A vision is the foundation for your future; what you want your farm business to become.

Vision helps to:

- define what you hope to achieve
- define what your purpose is
- define who will play what role
- create energy

A vision should state what the future of the farm will be like. It is a statement about what the business owner(s) and family want to create. It is something worth going for. It provides meaning to the people in the business, in the work that they are doing.

A vision statement should include three things:

- A statement about the values and reasons that are the basis for the business
  - What's important to you
- An envisioned future describing what the business will be like if it achieves its goals
  - Where you're going
- A recognition of how the business serves its stakeholders
  - What you do

Why is this relevant?

A transition plan should include a vision because a vision can be used to quantify progress. In the weeks and months following the development of your transition plan, while you are busy implementing the changes you've carefully laid out, you may ask yourself if your farm is doing what you want it to do. Referring to your vision will offer some insight into how things are going.

How will this aid in transition planning?

- This exercise challenges farm families to think creatively about their futures — especially as relates to transition.
- The exercise promotes communication.
- It identifies direction and purpose and can awaken family members to needed change.
- It promotes a common interest and commitment and encourages openness to different ideas and suggestions.
- Vision can encourage and build confidence.

Instructions

1. All family members actively involved in the farm should complete the exercise.
2. Non-farming family members can optionally participate in the exercise.
3. Review the goals exercise and values exercise that were completed earlier. Goals and values are closely tied to vision.
4. Each participating family member should write down their initial thoughts about their vision for the farm. The thoughts do not have to be in sentence or paragraph form. Single words or phrases are adequate.
5. Once everyone is ready, discuss what everybody has come up with.
6. Begin to bring these thoughts to a common statement. Use discussion to continue to crystallize the vision.
7. Set the exercise aside for a few days so people can think about what has been developed.
8. At a next discussion, review and edit the vision. Ideally, it should be summarized in a collection of two or three phrases. However, your vision statement can be two or three paragraphs.
9. Vision should be reviewed at least annually.
10. Store the documents for future reference.

EXAMPLE

Sample Farms Ltd. Vision

Sample Farms Ltd. is a progressive grain farm that values the personal needs of our owners, managers, employees and their families. We strive to provide a work/life balance that motivates our people to achieve their highest performance. We operate with modern equipment and employ proven technologies. We are profitable and ready to take calculated risks that will not jeopardize our financial security.

How does this apply?

The goal is to have a statement that everyone agrees properly captures what they feel is the vision for the farm and family. What's important is that you:

- understand the importance and application of vision
- start thinking about vision and create a first effort
- understand that the vision will evolve over time

PLANNING POINTERS:

- Your vision should be communicated internally and externally. Think about placing your vision statement on a plaque and putting it in a prominent place in your office or home. It should be reviewed at least annually.
- If you and your family experience difficulty in creating a vision, imagine:
  - that you are sitting in a helicopter, hovering about 3,000 feet over your farm five years in the future:
    - What does the farm look like? How has it changed?
    - What's happened in the industry and what have we done in response?
    - Who's working there? What are they doing?
    - What business is being conducted?
  - that a neighbour drives by and looks at your farm five years in the future:
    - What is he seeing and thinking?
  - how the community views your business five years in the future?

WHAT TO WATCH FOR:

- The vision that is going to be developed will not be perfect. Perfection is not the goal.
- Consider using an external facilitator. Most families find it difficult to work through a vision exercise and successfully develop a well-worded statement that expresses what they think.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Vision exercise on page 261.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

SITUATIONAL ANALYSIS

Farms operate within different surroundings. A situational analysis identifies how the farm is positioned within these surroundings. It can describe what happens within the farm and its control (internal) and what happens outside the farm and its control (external). The process is often referred to as a strengths, weaknesses, opportunities, threats (SWOT) analysis. Strengths and weaknesses are usually internal, with opportunities and threats external.

Strengths — advantages within your operation.

Weaknesses — points of concern within your operation.

Opportunities — opportunities outside your operation within the surroundings where you conduct business.

Threats — threats outside your operation within the surroundings where you conduct business.

Why is this relevant?

Strategy, goals and actions should be thought about from a situational analysis perspective. Generally, farm businesses should:

- build on strengths
- acknowledge weaknesses
- capitalize on opportunities
- minimize threats

How will this help transition planning?

- It helps to get family members on the same page.
- The exercise requires that family members think about the farm from a different perspective.
- The exercise promotes communication.

Instructions

1. Complete this exercise as a group.
2. In the exercise found in the forms appendix on page 263, list your farm operations, strengths, weaknesses, opportunities and threats in the corresponding spaces.
3. Prioritize the list in each area.
4. Now, review the list from a transition planning perspective.
5. Store the document for future reference.

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized
Management team has decades of experience to draw from.	*1. Good debt-to-equity ratio. We should be ok even if a few bad years happen in a row.*	*Succeeding generation lacks experience.*	*1. The labour situation is unstable outside of the management team.*
The farm is incorporated which will make managing future changes easier.	*2. Management team has decades of experience to draw from.*	*Work life balance is heavy on the work side.*	*2. Succeeding generation lacks experience.*
Planning – the farm has always been careful in our approach.	*3. Planning – the farm has always been careful in our approach.*	*The labour situation is unstable outside of the management team.*	*3. Work life balance is heavy on the work side.*
Good debt-to-equity ratio. We should be ok even if a few bad years happen in a row.	*4. The farm is incorporated which will make managing future changes easier.*		
Opportunities	**Opportunities Prioritized**	**Threats**	**Threats Prioritized**
Grain prices are high and look like they will stay high for awhile.	*1. Grain prices are high and look like they will stay high for awhile.*	*Global recession could drop grain prices and hurt land values.*	*1. Weather is always a threat in farming.*
Lots of neighbouring farmers are starting to retire. Growth potential.	*2. Lots of neighbouring farmers are starting to retire. Growth potential.*	*Weather is always a threat in farming.*	*2. Global recession could drop grain prices and hurt land values.*

How does this apply?

- Identifying your farm's strengths, weaknesses, opportunities and threats helps you to decide what you should focus on.
- Your transition plan should be developed with your SWOT analysis in mind.
- You will build on the SWOT analysis in the Enterprise Risk Management exercise and in the Critical Issues exercise.

PLANNING POINTERS:

- The SWOT analysis exercise should be reviewed annually with changes being made to reflect the current situation and surroundings.
- Prioritizing the lists in each area helps to bring focus to the planning process.

WHAT TO WATCH FOR:

- Try to maintain a balance between the positive (strengths and opportunities) and negative (weaknesses and threats).

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Situational Analysis exercise on page 263.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

RISK ASSESSMENT

How risk applies to business

Traditionally, farmers have thought about risk as being associated with operations and pricing. But, risk affects farms in many more ways. Risk is often associated with change. As part of transition planning, it's important to think about the risks that may arise.

Risk is generally thought of as events that happen and results in business performance that are below expectations.

How risk can be managed

The process of transferring ownership and management to the next generation very often compounds risk.

Risk Management is the process of identifying, measuring and managing the uncertain events that can happen. Risk on a farm can be classified as:

- Business risk — associated with
  - operations
  - strategy
- Financial risk — associated with the financial aspect of the farm.
- Market risk — associated with the input and output markets of the farm.

Risk can be measured in two ways – the probability and the impact.

- Probability is the likelihood that a risk event will occur.
- Impact is the degree of the consequences that would occur if the event took place.

It can be scored as follows:

Impact	Descriptions	Score
Very High	Significant consequences on the achievement of stated goals and objectives.	5
High	Considerable consequences on the achievement of stated goals and objectives.	4
Medium	Modest consequences on the achievement of stated goals and objectives.	3
Low	Limited consequences on stated goals and objectives.	2
Very Low	Negligible consequences on stated goals and objectives.	1

Centrec Consulting Group. Savoy, Illinois

Probability	Descriptions	Score
Very High	Almost certain to occur in the context of stated goals and objectives.	5
High	Likely to occur in the context of stated goals and objectives.	4
Medium	May occur in the context of stated goals and objectives.	3
Low	Unlikely to occur in the context of stated goals and objectives.	2
Very Low	Extremely unlikely to occur in the context of stated goals and objectives.	1

Why is this relevant?

A detailed and implemented process of risk management helps you to capitalize on business opportunities while protecting your farm from undesirable outcomes or severe losses. This is especially important as you and your family work through your transition plan.

How will this help transition planning?

- This helps to promote discussion and communication.
- The discussion requires that members of the family think about transition from a different perspective.
- The exercise helps to identify areas that may require specific attention.
- The exercise can help to minimize the potential for conflict. Risk associated with unfavourable events can cause stress within a farm family. People react differently to stress and it can lead to disagreements and conflict.
- Dealing proactively with risks that you have identified may increase the likelihood of a successful transition.

Instructions

A table in the forms appendix on pages 265-268 lists specific risks. It provides examples of these risks within the broader headings of operational business risk, strategic business risk, financial and market risk.

1. Complete the exercise as a group.
2. Under each risk category, read the list of risk examples and circle those that apply to your farm.
3. Add or describe risks that are specific to your farm (if any) in the space provided.
4. Use the scale descriptors from the tables above to decide the probability and impact of this risk category.
5. Refer back to your SWOT analysis and expand on your listed weaknesses and threats as

applicable.

6. Score the category by multiplying your probability and impact rating.
7. Total the scores in each risk category.
8. Focus your attention on areas with the highest scores.
9. Store the document for future reference.

EXAMPLES

Human Resource

Risk Category	Description	Probability	Impact	Score
Human	four Ds (death, divorce, disability, departure), management and ownership capacity, transition, performance and training	2	5	10
	Your Farm			
	We are at risk if our succeeding generation does not grow their management capacity to match the demands/growth of the farm			

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and financial structure	Debt servicing capacity, leverage, liquidity, profitability	2	5	10
	Your Farm			
	We are at risk if we take on too much debt and are unable make our payments.			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets	4	5	20
	Your Farm			
	We are at risk if interest rates rise significantly (more than 3 points.)			
			TOTAL	30

How does this apply?

Completing this exercise helps you to understand the broader aspect of risk that applies to your farm. You should consider developing a specific risk mitigation strategy for those headings and risk categories that have the highest scores.

Refer to this topic in the Critical Issue Action Plans topic on page 107 if you decide that a formal risk management strategy should be part of your transition plan.

PLANNING POINTERS:

- Farms encounter some risks that they cannot control, such as weather.
- Review your risk exercise annually.
- Being proactive about managing risk can result in better outcomes.
- Remember to refer to your risk exercise when you are developing your action plans.

WHAT TO WATCH FOR:

- When working through the exercise, try to step back and look at the risks to the farm from an outside perspective.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Risk Assessment exercise on pages 265-268.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

CRITICAL ISSUES

Critical Issues can be defined as those things that are extremely important to the farm business and ultimately, the farm family. They connect present and future performance and related accomplishments. These key factors are highly correlated to the achievement of the vision and to a successful intergenerational transition.

Farm owners and managers address management issues all the time. The focus here is on issues that exist at a high level, or in other words, are critically important. So much so that, if one or more of them is not executed successfully, at the least, the farm will not have realized what it optimally and potentially could have. At the worst, the farm's future may be threatened.

Typically, issues critically important to the success of the business are those for which action can be taken. For example, weather may be a critical issue for some farms, but for which specific action(s) may not be possible.

A critical issue, in most situations, should not have an obvious solution. If it does, likely the issue deals with a symptom and not the root of the issue. Not addressing the issue at its root will result in actions that are not properly aligned with what needs to get done to get the farm to where the owners and managers want it to be. This can include a successful transition. No farmer purposefully sets out to do something that will work at cross purposes with longer term success. Farm families are busy. They will be doing things right but not necessarily doing the right things.

Why is this relevant?

Critical issues may affect the farm's performance and form barriers to accomplishing its vision and a successful intergenerational transition. They are the things that farmers and farm families must get right … the things that must be in place.

How will this help transition planning?

1. Working through a process that reveals issues of critical importance to the success of the farm business will help family members prioritize what needs to get done — the right things. The day-to-day urgencies of managing a farm tend to take priority. But they may not be what is important in the longer term. Without identifying what's important in the longer term, what **gets done** may not necessarily be what **needs to be done.**
2. This exercise will also help to get everyone on the same page.
3. This in turn will help to mitigate potential conflict stemming from disagreements on what family members think is important, especially from a farm business management perspective.

Instructions

*Please note — this exercise builds on and uses the self-assessment information from the *Gaining Ground Agribusiness Assessment Workbook*. Please contact your MAFRD representative for a copy if you don't have one.

Steps 1 and 2 should be completed individually, steps 3 through 6 should be complered as a family.

1. Each individual reviews their self-assessment* and identifies up to three critical issues in each of these categories:
    a. Business Structure
    b. Production/Operations
    c. Environmental Responsibility
    d. Human Resources
    e. Marketing
    f. Financial Management
2. The issues identified are to be recorded on each person's own copy of the exercise.
3. Individuals' issues are then compiled into a master family list.
4. Family members review, discuss and prioritize the issues they have identified.
5. Family members should then compare the prioritized issues to the SWOT and Risk Assessment exercises that were completed earlier. Look for additional issues that may be critical to a successful transition. They are to be added to the master list, and ranked according to their importance and priority.
6. On the final prioritized list, record a brief summary of each critical Issue including:
    a. the issue
    b. underlying causes
    c. the impact on the farm business and transition planning.

EXAMPLE

Business Structure

1. *Lacking several plans – the most glaring one is we have no contingency plan. The farm has grown to a point where we need to treat it like a small business and make sure we have the proper plans and processes in place to be successful.*

Operations

1. *Find the most cost effective balance between acres, custom work and machinery upgrades. Needs to be affordable, provide labour efficiency and fit into our operations.*
2. *Find an operational structure that allows Rob more time away from the farm.*

Environmental Responsibility

1. *Need an Environmental plan. This is tied to the critical issue already identified in "Business Structure" section.*

Human Resources

1. *The farm is at risk because we don't have a long-term plan for the attraction and retention of both full and part time employees.*
2. *Develop an organizational structure that meets the current management needs and accommodates a possible transition plan (that may or may not involve the next generation).*
3. *Develop job lists and related job descriptions.*

Marketing

1. *Found no critical issues for the Marketing section*

Financial Management

1. *Analyze financial performance in more detail, considering current performance as it relates to opportunities and potential retirement / transition planning.*
2. *Structure the farm so that is consistently profitable, able to capture opportunities as they may arise (ex: additional land) and able to withstand some bad years.*

Final Prioritized List

1. *The farm is lacking a contingency plan, an environmental plan, and an HR recruitment and retention plan.*
    - *Underlying cause – We got by without them in the past, but the farm has grown to a point where these plans are needed.*
    - *Impact – During our transition planning process, the lack of these plans could seriously hinder our progress. In the future, the success of the farm could potentially be compromised if this is not addressed.*
2. *Develop an organizational structure that meets the current management needs and accommodates a possible transition plan (that may or may not involve the next generation).*
    - *Underlying cause – We got by without one in the past, but the farm has grown to a point where we would benefit by having and organizational structure more defined.*
    - *Impact – Having a developed org chart will provide clarity in regards to roles on the farm – for us (Rob and Faye) and for the kids (John and Rebecca).*
3. *Find the most cost effective balance between acres, custom work and machinery upgrades. Needs to be affordable, provide labour efficiency and fit into our operations.*
    - *Underlying cause – We think that this is a new reality that we are facing. As margins get thinner, and weather becomes more variable, we need to get even better at making operations decisions.*
    - *Impact – This balancing act is one of the most important aspects for the succeeding generation (John and Rebecca) to learn. It can make the difference between continued success for the farm and failure.*

How does this apply?

Critical Issues are important to identify, but even more important is forming action plans to address them. Refer to the Critical Issue Action Plans topic on page 107.

PLANNING POINTERS:

- Look first to finance and human resource management areas for issues that are more commonly critical to a successful intergenerational transfer.
- Families should have no more than four issues identified. Families are very busy and can expect to experience challenges in trying to address a longer list.
- However, if the family cannot come to consensus on a shorter list of priorities, it is acceptable to extend the list.
- It is typically easier to develop action plans for issues that are the root of a problem as opposed to a symptom.

WHAT TO WATCH FOR:

- Avoid the urge to drill down into detail at this stage. Detail will come in the next topic – Critical Issue Action Plans

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Critical Issues exercise on pages 269-271.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

CRITICAL ISSUE ACTION PLANS

Farm families can create a comprehensive transition plan. It can include well-developed goals, values, financial performance, vision, related tax strategies and legal documentation. However, they will remain paper plans so long as the plans do not include specific action steps to implement what has been discussed and developed. A vision without action is merely a dream.

You just finished identifying management issues that are critical to the success of your transition. Now it's time to develop action plans that deal with the issues you've identified.

Action plans include the details that will increase the likelihood of a successful intergenerational transition. Without such details, actions could be wasteful and even fail completely in producing desired results. Action plans, therefore, add the dimension of realism to transition plans.

Resources will be required to accomplish each of the steps within the action plans. The resources can include finance, infrastructure, equipment, people and information. People will typically focus mainly on the financial resources required. The need for financial resources is obvious but the resource that turns up scarce more often than any other is the human resource. Farm families will often simply run out of time or the talent required to keep the process moving forward and to ultimately, successfully implement the intergenerational transition.

Implementation is the key to a successful transition planning outcome. Implementation starts with developing action plans.

Why is this relevant?

Actions are linked to the critical issues that were identified in the previous topic area. Someone needs to sign up as being responsible for each overall action plan. This is an absolute necessity for monitoring the plan. Family members should be able to ask how it is going. They should know who to offer help to if, for whatever reason, the action isn't being accomplished or the process has stalled.

How will this help transition planning?

1. Creating action plans is by far one of the most important parts in developing a transition plan. The action plans are really a roadmap to the future and to a successful intergenerational transition.
2. Action plans create accountability. The family will have worked hard to develop their transition plan.
3. Action plans help. Commitment to using action plans as a framework for implementation of the transition plan will increase the likelihood of successful outcomes.
4. Action plans will help to keep the process (including implementation) moving forward.
5. Action plans keep family members connected to the transition plan and related goals because achievement of these goals is ultimately driven by completed action plans.
6. Action plans help to stimulate communication within and between family members; both actively and non-actively involved in the business. The communication will help to minimize the potential for conflict.

Instructions

1. This exercise should be completed as a group. Everyone who completed the Critical Issue exercise should be involved.
2. Review the prioritized critical issues that were identified in the previous topic area.
3. Locate the blank templates used for this exercise on page 255, and make copies if necessary. You will be making an Action Plan for each Critical Issue from your 'prioritized' list.
4. Using the action plan template, write a statement that defines the critical issue in more detail. This step is **optional**. Including it will help to bring a better understanding to the issue and actions needed to address it.
5. Identify one person to be primarily responsible for each action plan.
6. When completed, each action plan should:
   a. Identify the sequence of the actions.
   b. Identify how the task should be carried out.
   c. Identify the personnel, equipment and other resources needed to accomplish the action.
   d. Specify who will do what and when.

EXAMPLES

Critical Issue: *Absence of SEVERAL important long-term plans*

Person with Primary Responsibility: *Faye*

Statement that defines the Critical Issue (optional): *The plans we need are Contingency Plans, Environmental Plan, and an HR Recruitment and Retention Plan.*

Action Items	How	Specifics		
		Resources	When	By Whom
1) Hold a meeting to discuss this Critical Issue. This is to make sure we don't duplicate anything that might already exist in our files somewhere.	Call John and Rebecca and set up a time and place	Time. No money involved.	November 1, 2013	Faye
2) Assign responsibility so we know who is taking care of which plans	Do this at the meeting, and record it in the notes.	Time, discussion, computer. No money involved.	November 1, 2013	Everyone
3) Review progress in 3 months	Email the group to check on their progress	Time, computer	February 1, 2014	Faye
4) Make changes or assign help as needed	After reviewing progress, make sure no one is lagging behind too badly. If they are, we should get them some help, or maybe even an external advisor.	Time, computer, perhaps some fees for an external advisor if necessary	February 15, 2014	Faye in the lead, but each person with their own plan to take care of.

Critical Issue: *Absence of an organizational chart/structure*

Person with Primary Responsibility: *Rob*

Statement that defines the Critical Issue (optional): *Develop an organizational structure that meets the current management needs and accommodates a possible transition plan.*

Action Items	How	Specifics		
		Resources	When	By Whom
1) Create a first draft of an org. chart	Use a template or maybe just simply draw one on our white board	Time, maybe computer	November 15, 2013	Rob
2) Hold a meeting to discuss with the team	Call John and Rebecca and set up a time and place.	Time	November 30, 2013	Rob
3) Make changes according to what we decide upon at the meeting.	Update org chart. Put it in electronic format if not already.	Time, computer	January 15, 2014	Rob
4) Share and post final org. chart	Email it to the group, and print a copy and post it in the office	Time, computer	March 1, 2014	Rob

How does this apply?

Individuals are required to take responsibility for **each separate** action plan. Further, someone needs to take responsibility for each step within the action plan. If the steps are not reduced to individual work assignments, there is a strong chance that they won't get done.

PLANNING POINTERS:

- Be sure that one individual is identified as being responsible for each action plan section.
    - Accountability helps to ensure that things get done when and how they are supposed to be done. If people know the action plans will be regularly reviewed, implementers tend to do their jobs before they're checked on.
- Regular meetings, involving individuals who are actively involved in the business, will help to keep action plans current and top of mind and, as a result, keep the process moving forward.

WHAT TO WATCH FOR:

- Be realistic about what can be accomplished and by when.
- Action plans must be monitored to be effective. Build in regular reviews of the plan.
- Action plans with too little detail will be of less value to the process.
- Lots of things can change as the transition plan is developed and implemented. Action plans should be adjusted or new plans created to accommodate these changes.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Critical Issues Action Plan exercise on page 273.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

FINANCIAL TARGETS

You worked through the Financial Performance topic in the Readiness Assessment Phase where you reviewed your historical financial performance. You will work through another financial topic in the Plan Development Phase. The topic is called Financial Performance — Transition Scenario.

The first topic examines your past performance. The second topic examines the impact that different transition scenarios will have on your financial performance. A very important step that links the two exercises is setting financial targets.

Without the targets, it is difficult to assess the impact of changes in financial performance that may result from a transition scenario.

Targets can be used as measures to strive for. For example, setting a high threshold target and seeing if it can be reached. They can also be measures to not fall below. For example, setting a low threshold target and making sure decisions don't cause you to fall below it.

The exercise in the Readiness Assessment Phase indicated that you should look at a basket of ratios when analyzing financial performance. For purposes of setting financial targets that are specifically applicable to transition planning, you should consider using a minimum of six ratios. It's a good idea to include a ratio from each of the categories.

Important: The ratios include 'good', 'average' and 'poor' categories. Farms in different situations will experience different performance at different stages in their development or business lifecycle.

For example, a farmer nearing retirement may have less debt and therefore, a low debt servicing ratio (which would mean that he would be in the 'good' category). However, if the farm needed to borrow some money as part of the transition plan, the debt servicing ratio would increase (possibly meaning that he would be in the low 'average' category). This may be unavoidable during the transition.

EXAMPLES

Liquidity - The ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Working capital Percentage of Total Cash Expenses	(Current assets – Current liabilities) / Cash Operating Expenses	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %	**150%**

Solvency — The financial ratios that measure the amount of business debt relative to the amount of owner's capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Leverage Ratio*	Total Liabilities / Total Equity	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	>1 : 1	**0.70:1**
Debt Servicing	(Net income + Amortization + Interest -Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1: 1	**1.75:1**

* Industry standards based on assets at market value.

** If not already included in expenses (ex: non-corporate farms).

Profitability — The extent to which a business is able to generate profit (income) from the use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Return on Assets*	Net Income / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	**6%**

* Industry standards based on assets at market value.

Financial Efficiency — the extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Sample Farms Ltd.
Gross Margin	Gross Margin / Total Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	**65%**
Net Profit Margin	Net Profit / Total Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	< 5%	**15%**

Why is this relevant?

Setting financial targets helps to assess decisions made as part of the transition planning process.

How will this help transition planning?

- Knowing how different transition scenarios affect your financial performance is very valuable information. To be able to do this, you need to first establish financial targets.
- Agreeing on financial performance targets can potentially help to avoid conflict that may stem from poor financial results.

Instructions

1. Family members actively involved in the farm should participate in this exercise.
2. Review and discuss your historical performance from the readiness assessment phase.
3. Based on your historical performance and the good, average or poor thresholds, determine what your targets will be for each of the ratios included above.
    a. The targets you set should specifically take your transition planning into consideration.
4. Talk to your MAFRD Business Development Specialist - Farm Management or to an advisor.

How does this apply?

You will be able to test the financial impact of different transition scenarios against your financial targets.

PLANNING POINTERS:

- Review financial performance annually and test the performance against your targets.
- Talk to an advisor or your MAFRD Business Development Specialist - Farm Management if you are concerned about your performance, or if you have questions.

WHAT TO WATCH FOR:

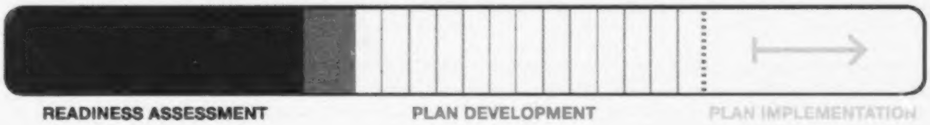
- If you do not have a good base of financial information, setting targets can be difficult.
- The six targets only represent a portion of an overall financial performance assessment.
- If your performance in any of the six areas is less than desired, it is a good idea to apply a more detailed evaluation.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Financial Targets exercise on pages 275-276.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 16: Meeting and Communication

Strategic Direction Review Meeting

At this point in the transition planning guide, you have completed the strategic direction section. This is an appropriate time to schedule a meeting to share your progress and make any necessary changes to your plan.

PLANNING POINTERS:

- You may want to include the management team, the retiring generation, and the succeeding generation. Other people can attend as you see fit.
- There is a sample agenda for this meeting included in the appendix section of this guide on page 277.

WHAT TO WATCH FOR:

- There could be some differences of opinion and therefore, disagreement and conflict.
- Consider using an external facilitator if you are concerned about the potential for conflict.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 17: Transition Options

SUCCESSOR ASSESSMENT

In family farm transition, the choice of successor for the farm is usually one or more of the retiring generation's children. This does not necessarily mean that the children are ready to take over management of the farm. Nor does it mean that they even have all the necessary skills. The successor of a farm business will be the future leader and manager of the business. The retiring generation are the best option to determine what management and leadership traits are necessary in their business.

The following assessment has two sections — leadership and management. Each section has statements related to leadership or management skill. The successor's skills in each of these categories will be assessed, based on their accomplishment level of the skill statements.

Why is this relevant?

Understanding your successor's skills, strengths and areas for growth are the starting point for building training and development plans for the next farm leader. The survey provides an opportunity for both generations to discuss together what leadership and management traits have been necessary to bring the farm to where it is today. It helps to show your successor(s) what will be required in the future. Plans resulting from assessment discussions help to set expectations for the type of leader and manager that you are looking for in your successor(s).

How will this help transition planning?

- The exercise requires that you specifically focus on the abilities of your successors.
- The exercise can reveal concerns that require some attention. Proactively dealing with the concerns helps to avoid undesirable outcomes.
- The exercise promotes discussion between the generations about leadership and management. The two areas are very important parts of a successful transition.

Farm Journal Legacy Project. Legacy by Design, LLC. Chico, California

Instructions

This survey is to be filled out by the retiring generation together.

1. Read each statement listed under the leadership and management categories.
2. For each statement, enter the appropriate number in the right hand column.
    5 – exceeds expectations
    4 – meets expectations
    3 – inconsistent
    2 – below expectations
    1 – needs improvement
3. Add the scores for leadership and management together and assess the results using the following scale.

    < 40 Leadership and management skills are less than desired. Attention to improving these skills should be a priority **before** proceeding with implementing your transition plan.

    > 40 < 70 Leadership and management skills are adequate but attention to improving these skills is still required. Proceed with implementing your transition plan **cautiously**.

    > 70 Your successor demonstrates strength in his or her leadership and management skills. Implementing transition plans should not encounter difficulty from issues that are related to the leadership and management of your successor.
4. Discuss the survey results with the successor(s). Make sure that you refer to both strengths and weaknesses.
5. Decide where improvements could and should be made.

How does this apply?

During successor assessment you will discuss and decide on a training plan for the successor(s) that may include some leadership and management training.

PLANNING POINTERS:

- Do not worry about getting the exact right score for each statement.
- The survey is designed to be a guideline that can be used to zero in on the skill sets of your successor(s).
- The intent is to use the exercise to identify where additional skill set development may be required and used to develop an appropriate training program.

WHAT TO WATCH FOR:

- Be positive when reviewing the results with your successor(s). Very few, if any, successors will have all the traits as they are presented in the survey. It is not the purpose of the exercise to criticize anyone.
- There could be some differences of opinion and therefore, disagreement and conflict.
- Consider using an external facilitator if you are concerned about the potential for conflict.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Successor Assessment exercise on page 279.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

OWNERSHIP OPTIONS

Until now in this guide, there has been a focus on examining the goals for the family, business health and a long-term plan for the farm. All play an extremely important role in determining what the family and business are ultimately trying to accomplish.

In the previous step you completed an assessment of the successor's ability to manage the operation they are ultimately going to receive. The Ownership Options topic, adapted from Saskatchewan Ministry of Agriculture *Estate Planning Checklist for Farm Families* publication, is designed to draw out questions and preliminary decisions on how the ownership of the business will be transferred to farming children. It is designed to help you make **preliminary** decisions on how, when and what farm assets (if any) will be transferred to non-farming children.

Your preliminary decisions will be tested financially in the following topic on financial performance. You may find yourself going back and forth between exercises and adjusting the ownership transition plan to better suit farm financial performance or your retirement needs. This is a perfectly acceptable approach to making a preliminary decision that you can then take to your advisors for their input.

There are five main areas to consider when making decisions about ownership transfer options:

1. Ownership – who will ultimately own the assets and when?
2. Control – who will ultimately control the assets and when?
3. Security – are you willing to put your assets at risk? What level of income do you need for your retirement?
4. Living arrangements – how will living arrangements be handled for both the retiring and succeeding generation?
5. Equal versus Equitable Treatment of Children – an equitable arrangement is not necessarily one that gives equal treatment to all children. In many situations, the farming child receives a greater value of assets but is required to take on the risk and stress of running the family business. This arrangement often lets the retiring generation remain associated with an active farm operation longer than would be the case if they did not have a succeeding generation ready to take over the farm. Each family's arrangement that they consider to be equitable will be unique to their family and completely different from others.

Why is this relevant?

The ownership options step will result in a preliminary plan to transfer ownership during your lifetime and/or through your estate. You can take your preliminary plan to your advisors for their review and suggestions.

Treat decisions made here as **preliminary** until discussions with your accountant, lawyer and investment or insurance advisors have taken place. Until the final details have been worked out with your advisors, you won't know what adjustments to your preliminary plan will be required.

How will this help transition planning?

- There are no easy answers to many of these questions. But thinking about them and writing down some initial thoughts can help in developing a preliminary plan.
- You will be meeting with your accountant, lawyer and possibly an insurance or investment advisor at some point. Having a preliminary plan developed that answers some or all of the questions above will be helpful. The questions listed above will be asked by your advisors so having thought about them in advance can be a real advantage.
- You will also at some point have discussions with your children about what you want to see happen. Having some preliminary thoughts written down will help the discussion.
- Being proactive with your planning can help to keep the transition moving forward and can help to lessen the potential for conflict.
- The following exercise is a checklist of items in each category that will help bring you to a preliminary decision regarding farm ownership transfer.

Instructions

This exercise is to be completed by the retiring generation with input from the farming children, if the retiring generation chooses.

1. Read through the questions.
2. On a separate piece of paper, write down answers to the questions that are applicable to your operation.
3. The answers you have written down form a preliminary plan for the ownership transfer of your assets.
4. At minimum the plan should include:
    a. who the assets will be transferred to
    b. when they will be transferred
    c. what the price will be
    d. when the funds will flow to you – as a lump sum, over time or a combination
    e. whether you will you retain assets for your estate or sell all during your lifetime
    f. outstanding questions for your advisors

How Does This Apply?

The preliminary plans that you develop will become the basis for discussion with the family. Initially you may discuss your plans solely with your farming children and consider their concerns, comments or suggestions. Eventually it is important to involve all children in the discussion regarding ownership transfer of the family assets. Refer to your preliminary plans in the Business Structure topic, Financial Performance – Transition Scenario topic and the Preliminary Advisor Review topic.

PLANNING POINTERS:

- Remember that this is a preliminary plan. Nothing is set in stone at this point.
- You may want to take a first attempt at the questions and then set them aside; coming back to them in a few days. This gives you time to think more about your situation. Clarity of thinking can sometimes come as time passes.

WHAT TO WATCH FOR:

- If you find the questions difficult, talk to you MAFRD Business Development Specialist - Farm Management or an advisor.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Ownership Options exercise on pages 281-282.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

BUSINESS STRUCTURE

Based on the preliminary discussions you had, and possible decisions that were made in the Ownership Options topic, it's now time to explore actual methods of transferring your ownership.

NOTE: Business structure can be a complicated issue to work through. Make sure you talk to your accountant and lawyer about your situation and about options you may have. The following document provides an overview of the topic. **It is not meant to replace advice from professionals.**

The method suitable for any particular family depends upon many factors. A few of these factors are:

- number of family members (active in the farm and non-active)
- financial health of current farm business
- financial health of the retiring generation (could include sources of wealth and income other than from the farm)
- ownership structure of the current farm business
- management ability of on-farm family members
- borrowing capacity of the farm and its on-farm family members
- personal and family goals and objectives
- immediate or gradual transfer of ownership

Methods of Transfer

The basic methods of transfer are:

- sale
- gift
- bequest

Each particular method carries different tax implications when transferring property to others. The most suitable method also depends on the form of the business arrangement that will eventually be used as the way to transfer farm assets.

Transfer by Sale

Most farms will be transferred at least in part by a sale from one generation to the next. A sale is a direct way of making the transfer. A sale to the children provides capital money for the parents and non-farming children. Some friction within the family may arise over purchase price and repayment terms if parents are financing the sale.

Planning the Future. Manitoba Agriculture, Food and Rural Development. Winnipeg, Manitoba

Transfer by Gift

Few people can afford to give the farm away. However, most transfers within the family usually include some amount of gifting. Specific assets will be gifted or the difference between the full fair market value and the actual transfer price of the asset will in fact be a gift. Gifting helps the children get over the hurdle of paying for assets that have inflated market values. It helps a child gain some beginning equity in the farm. With this equity, the child has borrowing power to raise additional capital for the farm operation.

Gifting sometimes does not provide much comfort or flexibility for the parents. It removes a source of income, takes away control and eliminates the parents' opportunity to change their minds later. **Once it's given away, it's gone.**

Transfer by Bequest

A bequest is a gift upon death directed by one's will. A will is used to distribute your estate to named beneficiaries after death. A will should not be the only transfer method. However, it is an essential tool if a parent should die before the transfer plan is complete or as a final step in a transfer plan. It can be used for such things as forgiving debts still owed by the younger generation or distributing an inheritance to non-farming family members.

Many farm transfers use a combination of bequest, gifts and sales to reach a successful farm transfer over a gradual period of time. The appropriate combination of methods depends upon your specific situation.

NOTE: This summary of the Methods of Transfer does not intend to replace the advice of trained professionals. Accountants and lawyers should be consulted as they can assist you in these decisions.

Structuring the Transfer

There are several structures that can be used to transfer ownership of the farming assets to your successors. There is **no one right way** to structure the transfer of the farming operations. The ownership structure that best fits your situation will be specifically designed to meet the needs of your individual family and business circumstances.

The best arrangement must consider:

- the needs of the parents
- the needs of the children
- the value of the farming operation
- potential financing arrangements
- debt servicing capacity of the farm

Parents' Needs

An important consideration when deciding upon the appropriate method for turning over the farm property to the children is how much money the parents will need for living expenses for the rest of their lives. Many farmers spend their farming lives building equity in the farm, with the result that they are often asset rich but cash poor. If the assets are turned over to the children for nothing or little consideration, unless the parents have some other source of income, they could have very little left to live on.

Life expectancies are increasing so it is important to plan for a long retirement. It is also important to factor in an allowance for inflation. A two per cent annual increase in inflation approximately equals 22 per cent in ten years. A four per cent annual increase approximately equals a 50 per cent increase.

Younger Generation's Needs

Since a farm transfer generally occurs at a time of life when the younger generation's living costs are increasing due to marriage and a growing family, they must not underestimate these costs. The younger generation will require that the farm business will cover operating expenses, income taxes, loan repayments and investment. It also needs to provide enough income for family living expenses — as they currently stand and as they increase.

There is a caution here. The retiring generation typically is living on the farm while the younger generation often lives in town. When determining living expense needs for the younger generation, costs that are sometimes not considered when living on the farm need to be included. These may be utilities, automobile expenses and mortgage payments.

Selling Price

The selling price is determined, for the most part, by the willingness and ability of the older generation to assist the younger generation financially. Cash flow and debt-servicing capacity of the ongoing business are factored into the decision. Some assets will be transferred at or near fair market value; others will be sold for much less or even given as gifts. The total sale price is often determined through consultation with an accountant and includes the retirement and estate objectives of the parents.

Borrowing Arrangements

How are the children going to finance the property? A farm transfer plan may involve a transfer of the business using commercial financing or financing provided by the parents.

Note: Careful consideration must be made to make sure that the farm is viable. If cash flow cannot handle debt payments, family members who are financing the transactions are often the last to receive payment. This can, in turn, jeopardize their retirement.

Further, if the parents are providing financing or deferring payment, they by association assume some of the risks in the business and are not completely free from the farm until the last financial commitment is met.

Debt Servicing Capacity

The debt-servicing capacity of a business is the amount of money (from all sources of income) left after paying all operating expenses (including an allowance for family living expenses and income taxes) — before loan payments are made. This amount, then, is available for loan (interest and principal) payments.

Business Structures

Sole Proprietor

A sole proprietorship occurs when the business and all its assets are personally owned by one person (the sole proprietor). Income produced by the business is taxed to the sole proprietor personally. A sole proprietorship is the business arrangement that is easiest to form and organize. It is much less expensive to set up than a partnership or corporation.

Within a sole proprietorship, the owner is:

- in absolute control over all management decisions
- taxed at the personal, marginal rate in effect at the time
- able to do anything an individual citizen can do
- personally liable for all debts of the business and personal assets may be seized to pay off the debts of the farm

A sole proprietorship ends upon the death of the owner. The property may be transferred to another person upon your death, but the person receiving the property becomes a new business entity.

Partnership

A partnership can be defined as the relationship that subsists between persons carrying on a business in common with a view of profit. This definition covers cases where two or more people have specifically agreed to become partners. It also applies to any arrangement where, when there is no written agreement, the conduct of the people would indicate that they are carrying on a business together.

Generally, deciding if a partnership exists can be determined by reviewing the arrangement for the presence, or absence, of the following:

- The individuals are carrying on a business in common. Joint tenancy, tenancy in common, joint property, common property or part ownership of something such as land does not necessarily create a partnership — even though profits from the land may be shared.
- The parties involved plan to make a profit from the venture.
- All parties are prepared to share any losses that the business might incur.
- All parties participate (not necessarily equally) in management.

Types of Partnerships

There are two types of partnerships; limited and general. In most farming situations, partnerships will be classified as general. In a general partnership, each of the partners is liable for any debts incurred in the name of the partnership. In the case of a limited partnership, limited partners are liable for the debts of the partnership only to the extent of their investment.

It is evident that the question of liability is one of the key points regarding the partnership form of business. In a general farm partnership, each partner **is liable jointly and severally** with the other partners for debts and obligations incurred by the farm while they are partners. If for some reason the liabilities of a partnership exceed its assets, a creditor or injured party may sue the partnership and each partner or an individual partner for the full satisfaction of a claim. This is an extremely important point to keep in mind when entering a partnership agreement or a business arrangement which could be declared a partnership by a court action.

In addition to the liability aspect, partnerships can be grouped according to how the assets are owned. The main differences are basically the degree of ownership of assets by the partnership versus the partners to the agreement.

The following breakdown describes the range of possibilities for a farm partnership:

- Full partnership
  - partnership owns all assets
  - individual partners have an interest in the partnership only
  - this form of partnership most clearly parallels the concept of an independent entity
- Modified partnership
  - some assets are owned by the partnership and some assets are owned by individual partners
  - individual partners therefore have ownership of certain assets as well as a partnership interest
- Operating partnership
  - individual partners retain title to all assets used by the partnership
  - this type of partnership simply shares labour, income and expenses
  - a partnership interest would only be created through retained earnings

Partnership Profits

For income tax purposes, a partnership must calculate its net income as if it were a separate entity. However, no income tax is levied on partnership income as the partnership itself is not required to file a tax return. Instead, the net income (or loss) is allocated to each partner according to the sharing agreement. Partners must then include their share of partnership income or loss in their own individual tax returns. In effect, while net income is determined at the partnership level it is taxed at the individual partner level. Capital cost allowance on partnership assets must be accounted for at the partnership level. Profits may be shared in any manner agreed upon by the partners. The profit sharing ratio need not be predetermined nor does it have to be consistent from year to year. Normally, the sharing ratio should be consistent with the amount of capital and labour contributed by each member. Farmers should be aware that the Canada Revenue Agency (CRA) has the discretionary power to reallocate partnership profits.

Special income tax provisions permit a rollover (deferral of tax) on the transfer of property to a partnership. These rollover provisions apply to land, buildings, machinery, quota and inventory.

When dissolving a partnership, the general rule is that assets are deemed to be disposed of at fair market value when a partnership is dissolved. This may result in capital gain (loss). However, special rules exist to defer the tax on the dissolution of a partnership in certain situations. These include:

- transfer of partnership property to individual partners
- transfer of partnership property to a limited company
- transfer of property from one partnership to another
- partnership dissolved with one partner continuing as a sole proprietor

Corporation

The corporation or company is a separate legal entity that exists independent of the shareholders or members who compose it. As a legal entity, a company can do many of the things that a person can do. For example, it may purchase, hold and transfer property, obtain financing and enter into contracts in its own name.

Owners of a company are known as shareholders. Their financial interest in the company is represented by ownership of shares. Once a farmer transfers property to a company, the company takes title to such property. In turn, the farmer has title to the allotted shares, which are held as personal property. The farmer may continue to control the farming business carried on by the company by virtue of shares held in the company, but the company is the legal owner of the farm.

The share structure that a company adopts can be critical in terms of transition and estate planning and taxation. Several classes of shares can be created, each offering varying benefits to its holder. Such factors as voting privileges, realization of dividends and equity participation will distinguish one class of shares from another. A company's equity financing is accomplished through the issuance of shares and notes. A note may represent a loan by a shareholder to the company, thus the shareholder becomes a creditor of the company as well.

Tax Considerations

The corporation differs from both the sole proprietorship and the partnership in that it pays its own taxes on earned income, whereas in the other two forms of organization, income is taxed in the hands of the partner or proprietor. However, shareholders in a company also pay tax on any dividends or salary received from the company.

Salaries are a deductible expense to the corporation, thereby reducing its taxable income while dividends do not.

Advantages of a Corporation

Farm Business Continuity

A company has perpetual existence. Provided that managerial responsibilities are shared by two or more shareholders, many of the problems that develop upon the death of a sole proprietor are avoided.

Transferability of Ownership

The corporate form of organization converts ownership of specific assets into more readily transferable preferred or common shares, which represent the ownership of the business as a whole. For estate planning purposes, it is much easier to implement an orderly transfer of shares from principal shareholders to children during their lifetime and after their death.

Tax Savings

A Canadian-controlled private corporation is taxed at lower rate than the personal tax rate. Tax savings, which are really a tax deferral, are only possible if profits are reinvested in the corporation. The withdrawal of profit as dividends, salaries, interest, rent, etc., will largely eliminate the tax deferral.

Limited Liability

The liability of a shareholder is limited to the value of shares owned. Investments outside the company are not required to be used to settle company liabilities. This advantage is lost if lenders require personal guarantees.

Disadvantages of a Corporation

High cost of incorporation

There are significant start-up costs and annual operating costs related to incorporation. Opening and annual financial statements must be prepared, along with a more complex income tax return. The services of an accountant are normally required, which could result in a high annual cost.

High Cost of Dissolution

Because there is no rollover provision when transferring assets out of a corporation the tax costs may be very high if and when dissolution occurs.

Extra Administration

More administration of a corporate farm business is required and it involves more work with lawyers and accountants.

Characteristics of a farmer who incorporates:

- consistent, high level of farm income and net taxable income
- income left in the company as opposed to flowing through the company to the shareholders
- large untaxed inventories

  - paying a spousal salary (over $30,000 per year)
  - some debt
  - capital gains exemption available
  - estate freeze required

Transfer Options by Structure

Sole Proprietor

1. outright sale with commercial mortgage
2. sale with mortgage back (parents hold the mortgage)
3. agreement for sale
4. promissory note
5. option to purchase

Note: The income tax and business considerations associated with these options are complex and should be discussed with your competent professional advisors.

Partnership

1. Admit farming children as partners of the existing partnership.
2. Transfer partnership to a corporation.
3. Sell or gift partnership interests to farming children.

The income tax and business considerations associated with these options are complex and should be discussed with your competent professional advisors.

Note: Transferring a partnership interest creates a one-time opportunity to make use of an additional capital gains exemption limit. If you are presently operating as a sole proprietor and are considering incorporation as a way to enable the transfer, it could be very beneficial to first form a partnership and then, after a required (CRA rules) period of time, proceed to incorporate. As stated previously, contact your accountant.

Corporation

1. Transfer existing shares of the corporation to your farming children.
2. Estate freeze and transfer of growth shares to farming children.

The income tax and business considerations associated with these options are complex and should be discussed with your professional advisers.

Why is this relevant?

It is important to understand the different options available to you for the ownership transfer of the farm. This way you can begin to formulate a preliminary plan that accomplishes your transition goals.

How will this help transition planning?

- Simply, you need to understand all the options that are available to you before you make final decisions about implementing your transition plan.

Instructions

1. Family members actively involved in the farm should complete the exercise.
2. Based on the preliminary decisions you made in the Ownership Options topic and the information included in the introduction to this section answer the following questions:
   a. Does the farm currently have the correct structure to implement the preliminary decisions from the Ownership Options topic?
   b. If no, what changes might be beneficial or necessary to implement our preliminary plan?
   c. What questions do we have for our advisors (specifically accountant) regarding current and potential business structure changes?
3. If you are unsure about any of the different structures and how they might apply to your situation, talk to an accountant and lawyer.

How does this apply?

Business structure is one of the most important parts of the transition plan. You can use structures to effectively implement your plan and to avoid paying tax unnecessarily.

You may refer to this topic when completing the Financial Performance – Transition Scenarios topic on page 133 where you will test your preliminary decisions to see if they are financially viable.

PLANNING POINTERS:

- It is appropriate to get a second opinion. You do not have to change accountants or lawyers. Simply, arrange for a meeting with another advisor and see what he or she has to say. There will likely be a charge for this information but will be a small investment compared to the value of the assets being transferred.

WHAT TO WATCH FOR:

- Decisions around business structure and ownership options can involve great sums of money. They can be complex and include several different options. Make sure you have all the information you need to make the decisions.

EXERCISE:

- There is no formal exercise for this topic. You can record your notes and questions for professionals on a separate piece of paper.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

FINANCIAL PERFORMANCE – TRANSITION SCENARIO

In this section you will build on the historical financial performance analysis you conducted back in Financial Performance topic. Analyzing your farm's historical performance helped you decide if your operation was ready to proceed with the transition planning process.

Also, if you have worked through the retirement calculator, you will have determined what level of funds the retiring generation must receive from the farm to finance their retirement. If you haven't completed the retirement calculator exercise, the retiring generation should take the time to do it now, before proceeding with this topic.

You can refer to the Retiring Generation topic for more information on the retirement calculator.

In this section, you will analyze whether the transition scenario, or scenarios, you have discussed is financially possible for the farm.

The first step in this analysis is to prepare a baseline one to three year financial projection for the farm. A financial projection is a budgeting activity that estimates the future financial position of a business. Financial projections begin with estimating sales and their related expenses. For a farm, this involves estimating production and related prices.

To look at testing your different transition scenarios, your financial projection should be based on your historical performance averages, **not** necessarily what the farm actually expects to happen in the near term. This is because the projection is being used to evaluate long-term decisions and therefore, should be based on long-term averages.

It's important to use conservative estimates of production, price and expenses to make sure the scenario you are evaluating will work if the farm encounters one or more bad years.

The baseline projection is prepared on a **no change** basis, **as if** the farm were to remain unchanged for the next one to three years. The baseline projection can be expanded to include a beginning and ending balance sheet or statement of net worth and monthly cash flow.

It's important to know how the transition scenario will affect your balance sheet or net worth. It's also important to know how the transition will ultimately be financed – which has impact on debt and cash flow.

The next step in analyzing your transition scenarios is to add in the transition options you have discussed and decided on to date.

As noted above, refer to the Retiring Generation topic that included the retirement calculator for the amount of money the retiring generation will need from the farm to fund their retirement. Note that the retiring generation may want to think about the option of taking only what they need from the farm. Or, they may want to take more money to allow for a retirement safety net into their future or to give to non-farming children.

Transition scenario factors may include:

- addition of or the increase in wages to the succeeding generation
- addition of or the increase in wages or retirement draw for the retiring generation
- addition of or the increase in draw for non-farming children's estate/inheritance
- the potential for other children joining the farm in the future

- expansion and growth plans and their associated revenues and expenses
- new capital purchases
- new financing
- internally financed buy-out plans
- land or other rental payments

The list of transition factors can be very long and unknown at the time. *However, your farm's analysis needs to include what has been discussed so far.* **Your plan does not need to be written in stone at this point.**

The Financial Performance – Transition Scenario analysis becomes a tool used to test what-if situations. That is, your family may have discussed a number of options to date, but the final decision may depend on what works financially for the operation. The scenario analysis helps to put some background to the discussions and decisions.

Why is this relevant?

The financial performance transition scenario helps to bring all the family discussions to date into reality. As mentioned above, the potential scenarios are endless. It's important to understand the financial capacity and limitations of your farm when considering transition options. The transition scenario analysis will narrow your discussions to those that are financially realistic to implement. It is **by far better** to have this information at hand before final transition plans are set and implemented.

How will this help transition planning?

- Knowing how possible transition planning discussions impact on financial performance before plans are implemented is extremely important and advantageous.
- The topic promotes communication and understanding of what's being discussed about transition planning.
- The discussion can help to lessen the potential for conflict.

Instructions

1. Prepare a one to three year baseline projection for your farm. You can prepare this information using:
   a. a spreadsheet tool you may have designed
   b. FarmPlan, downloadable software available at www.manitoba.ca/agriculture
   c. another farm projection tool of your choice
2. Analyze the financial ratio results as discussed in Topic 7: Financial Performance on page 35.
   a. Are ratio results in the baseline projection still trending towards improvement or, at the very least, remaining acceptable?
   b. If yes, proceed with next step.

   c. If no, you can still proceed with the next step, but usually adding a transition scenario does not by itself improve your financial performance. You should review the baseline projection and look for areas that can be improved or changed so that financial performance can be improved before proceeding with a transition plan.

3. Add your transition scenario to the baseline projection.
4. Compare the financial information (ratios) from your transition scenarios to the financial targets that you established in Topic 7: Financial Performance on page 35.
5. You now have two options:
   a. If you are satisfied with the viability of the scenario and financial results, proceed to the next step in this guide.
   b. If you are not satisfied with the viability of the scenario and financial results, try adjusting the scenario to find a combination of things that work financially and still achieve your farm transition goals.

How does this apply?

Use the financial performance transition scenarios step to test multiple possible scenarios. The more scenarios your family tests, the more comfortable you will be with the scenario that you choose to put into your final transition plan. Look for a scenario that:

- yields the best overall financial ratio results
- satisfies cash flow and debt service requirements
- accomplishes your transition goals while putting the least financial strain on the farm
  - Ex: Assume that the farm could complete a retiring generation buy-out plan in 10 years, but retiring generation goals will still be met if the buy-out is extended over 20 years. This would still meet your transition goals but would allow financial room for other farm related opportunities that will likely occur in the future.
- is supported by your lender, accountant and other advisors

PLANNING POINTERS:

- If you are **unable** to find a transition scenario that yields acceptable financial results and accomplishes your transition goals you may want to consider outside help. Consult your current advisors for help or speak to your MAFRD Business Development Specialist - Farm Management.

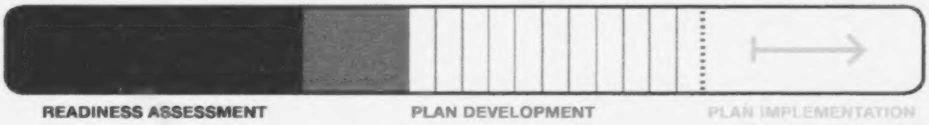
WHAT TO WATCH FOR:

- Including financial performance in your transition plan discussions can be complicated. It is important that you have the best financial information possible. If you are unsure or have questions about the impact of your transition plan discussions on the farm and family's financial performance, consult your current advisors for help or speak to your MAFRD Business Development Specialist - Farm Management.
- The topic may result in questions that you haven't thought about. These questions can be directed to your advisors or to your MAFRD Business Development Specialist - Farm Management.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress



Topic 18: Preliminary Advisor Review

You have just worked through topics that discussed different transition options. You will have gained a better understanding of the different options but you likely will have a lot of unanswered questions. It's now time to take your information and questions to your professional advisors.

Why is this relevant?

You should get some feedback at this time and before you start talking about your estate plan and before you start digging deeper into the management transition. It is better to find out if what you are thinking about in terms of ownership transition is possible before going too far ahead and learning later that you have to make changes.

How will this help transition planning?

- You will get answers to your questions and keep the process moving forward.
- Information can be shared with family members. This helps to keep communication lines open and can help to minimize the potential for conflict.
- Getting information before moving too far ahead can save you time and money.

Instructions

1. Update your Advisor Information Report.
2. Determine who will be attending meetings with your advisors.
3. Make appointments for the meetings.
4. Send a copy of your Advisor Information Report to each advisor in advance of a meeting.
5. Include key questions so your advisors have time to prepare for the meeting.
6. Report back to family members after the meetings.
7. Store documents for future reference.

How does this apply?

The meetings will give you important information that you can use to continue with your planning process. The meetings give your advisors an opportunity to share information, where and when it makes sense.

PLANNING POINTERS:

- Ask lots of questions. There are several different options to assist in transitioning ownership.
- You may need to make a follow-up appointment after you have a chance to think about what you learn in the initial meeting(s)

WHAT TO WATCH FOR:

- Working with some advisors requires confidentiality agreements to be agreed upon and upheld. This can be for the protection of the advisor, the client, or often both. Confidentiality may require that the details of your relationship should be excluded from this exercise.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 19: Estate Plan Elements

ESTATE DISTRIBUTION

The purpose of the Estate Distribution topic is to begin to focus your thinking on parts of your estate plan. You have just finished working through the Transition Options topic and you've received some preliminary feedback from your professional advisors. This information can be used when you now start thinking specifically about your estate plan.

An estate plan is made up of several different elements or components. You will have to make decisions about your estate and how you see it being managed, before and after you die.

This guide separates the discussions about your estate plan area into three sections, this one being estate distribution.

MAFRD has a publication that provides excellent information on estate planning. It's called *A Legal Guide to Farm Estate Planning* (the LGFEP) and will be referenced in the topic.

How will this help transition planning?

- Having some preliminary understanding about your estate plan before meeting with your advisors can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date, as part of the transition planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions

1. The retiring generation will likely be more interested in this topic.
2. Succeeding generation family members involved in the transition planning process should also participate. They will learn about estate plan issues and it is never too early to begin to gain this knowledge.
3. Go to your local MAFRD GO Office and get a copy of the LGFEP. You can access the publication online by visiting the MAFRD website.
4. Read the LGFEP, paying particular attention to the sections that include information about estate distribution.
5. Write down questions that you can take to meetings with your professional advisors.
6. If the succeeding generation has not read the LGFEP, consider sharing information you have learned with them.
7. Keep the publication handy for future reference.

How does this apply?

Reading the LGFEP and talking about the information in it will help you make better decisions about your estate plan.

PLANNING POINTERS:

- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.

WHAT TO WATCH FOR:

- Unfortunately, the LGFEP alone will not make the decisions for you. You will still have to talk to your advisors, talk to your children and then think some more about what you want to happen with your estate.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

WILLS, POWER OF ATTORNEY, EXECUTOR

The purpose of the Wills, Power of Attorney, Executor topic is to begin to focus your thinking on parts of your estate plan. You have just finished working through the Transition Options topic and you've received some preliminary feedback from your professional advisors. This information can be used when you now start thinking specifically about your estate plan.

An estate plan is made up of several different elements or components. You will have to make decisions about your estate and how you see it being managed, before and after you die.

This transition planning guide separates the discussions about your estate plan area into three sections, this one being wills, power of attorney, executor.

MAFRD has a publication that provides excellent information on estate planning. It's called *A Legal Guide to Farm Estate Planning* (the LGFEP) and will be referenced in the topic.

How will this help transition planning?

- Having some preliminary understand about your estate plan before meeting with your advisors can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date, as part of the transition planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions

1. The retiring generation will likely be more interested in this topic.
2. Succeeding generation family members involved in the transition planning process should also participate. They will learn about estate plan issues and it is never too early to begin to gain this knowledge. **They should definitely have a will.**
3. Go to your local MAFRD GO office and get a copy of the LGFEP. You can access the publication online by visiting www.manitoba.ca/agriculture.
4. Read the LGFEP, paying particular attention to the sections that include information about wills, power of attorney and executors.
5. Write down questions that you can take to meetings with your professional advisors.
6. If the succeeding generation has not read the LGFEP, consider sharing information you have learned with them.
7. Keep the publication handy for future reference.

How does this apply?

- Reading the LGFEP and talking about the information in it will help you make better decisions about your estate plan.

PLANNING POINTERS:

- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.

WHAT TO WATCH FOR:

- Unfortunately, the LGFEP alone will not make the decisions for you. You will still have to talk to your advisors, talk to your children and then think some more about what you want to happen with your estate.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

INSURANCE

The purpose of the Insurance topic is to begin to focus your thinking on parts of your estate plan. You have just finished working through the Transition Options topic and you've received some preliminary feedback from your professional advisors. This information can be used when you now start thinking specifically about your estate plan.

An estate plan is made up of several different elements or components. You will have to make decisions about your estate and how you see it being managed, before and after you die.

This transition planning guide separates the discussions about your estate plan area into three sections, this one being insurance.

MAFRD has a publication that provides excellent information on estate planning. It's called *A Legal Guide to Farm Estate Planning* (the LGFEP) and will be referenced in the topic.

How will this help transition planning?

- Having some preliminary understand about your estate plan before meeting with your advisors can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date, as part of the transition planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions

1. The retiring generation will likely be more interested in this topic.
2. Succeeding generation family members involved in the transition planning process should also participate. They will learn about estate plan issues and it is never too early to begin to gain this knowledge. Learning about insurance options early is a very good idea. It can save money in the future.
3. Go to your local MAFRD GO Office and get a copy of the LGFEP. You can access the publication online by visiting www.manitoba.ca/agriculture.
4. Read the LGFEP, paying particular attention to the sections that include information about insurance. The Guide does not include a lot of information on insurance. You may decide to arrange a meeting with an insurance advisor to learn more about the advantages and disadvantages of using insurance as part of your estate plan.
5. Write down questions that you can take to meetings with your insurance advisors.
6. If the succeeding generation has not read the LGFEP, consider sharing information you have learned with them.
7. Keep the publication handy for future reference.

How does this apply?

- Reading the LGFEP and talking about the information in it will help you make better decisions about your estate plan.

PLANNING POINTERS:

- It might be helpful to find other retiring generation farm families and talk to them about their estate plan ideas.

WHAT TO WATCH FOR:

- Unfortunately, the Guide alone will not make the decisions for you. You will still have to talk to your advisors, talk to your children and then think some more about what you want to happen with your estate.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 20: Human Resources

MANAGEMENT STRUCTURE

In an organization of any size or complexity, employee responsibilities are normally defined by what they do and who they report to. Manager responsibilities are defined by who reports to them. Over time these definitions are assigned to positions in the organization rather than to specific individuals.

The relationships among these positions are illustrated graphically in an organizational chart. This is fundamental to how a business is managed. Farms are no exception.

For most farms, the relationships are still filled by family. There are challenges when family members report to other family members. Challenges such as:

- Who gets to manage what?
- Who gets to be the boss?
- How do you discipline a family member?

Management responsibilities are usually assigned to a person as opposed to a specific area of management. Sometimes the responsibilities are filled by default — or by whoever may not be as busy or may not have other, more important things to do. This is a reality of family farms and family businesses.

There are an increasing number of farms where management positions are filled by arm's length (non-family) individuals. This situation eliminates the family-related challenges but introduces another challenge. Arm's length employees may become frustrated with a lack of management structure and development, increasing the likelihood that they will leave.

Another challenge related to non-family members fulfilling management roles is the trust factor — trusting that they will do an adequate and acceptable job. Management structure does not eliminate the trust factor issue but it helps the farm family in working through it.

Why is this relevant?

Setting your farm business up so it is clear who reports to whom means that an employee knows where to go to when a question or problem occurs. People working in the business should:

- clearly understand who the boss is,
- to whom they report and,
- what decisions they can make on their own.

It is essential to organize your management structure so that each person has only one boss.

For the vast majority of farms, formalized (written) management structure and development does not exist. Certainly, individuals involved in the farm have roles, but they are thought to be well understood with no need for formal development.

Understanding and taking on management structure development is hugely important for farms that are in the process of transition planning. **This is important regardless of how many people are involved in the operation.**

Transition planning presents an opportunity to develop a formal management structure because:

- There will be a period of management transition where roles and responsibilities may be unclear.
- Transition planning adds an element of complexity to day-to-day operations.
- There will be more individuals involved, especially during the transition period.
- It is an opportunity to start fresh with new rules or ways of doing things.

How will this help transition planning?

- Transferring management is one of the most important parts of transition planning. Effectively transferring the management significantly increases the likelihood of a successful transition.
- Having people know and understand their roles and responsibilities helps reduce the potential for conflict.
- A well-developed plan to transfer the management to the next generation helps lessen the worry that the retiring generation may have about losing control.

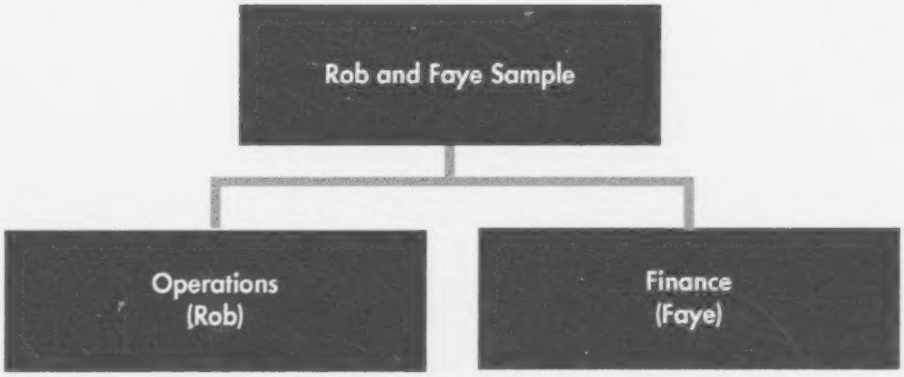
Instructions

- This exercise is to be completed by all individuals together.
- The approach is to develop an existing organizational chart that represents current management structure.
- The next step is to then develop a chart that represents what the future structure will look like.

The recommendation is to use a three-year future.

1. Using the exercise in the forms appendix on page 283, or a blank piece of paper, identify the areas of management that form part of the overall management structure of the farm.
2. The management functions that usually are included in managing a farm business are: operations (production), marketing, human resources and finance. Some farms may add environment, technology or safety management roles.
   a. Note that all roles **do not have** to be full-time management positions.
2. Determine who is currently responsible for each of the management areas.
   a. Write their names in the appropriate spaces.
3. Determine what are the reporting relationships within each of the identified management areas.
4. Determine what will the chart look like after the transition plan is completed and being implemented — using the three year future option.

EXAMPLE



How Does This Apply?

You will refer to this exercise in the Management topic and Roles, Responsibilities and Authority topic.

PLANNING POINTERS:

- You may have one person who will appear under more than one heading.
- You may have more than one person who will appear in the same heading. This is not ideal.
- Your three year chart should ideally not have more than one person responsible for the same area.
- If you have two people who have responsibilities for the same management area, try to separate the responsibilities so that there are specific things that each person can be responsible for.

WHAT TO WATCH FOR:

- If you are having trouble identifying your farm's areas of management and then assigning responsibility (steps one and two above), try thinking through the exercise backwards. For example:
    - Identify all the management personnel on the farm.
    - What areas of management are they currently responsible for?
    - Now put the management headings on your chart and assign the personnel to them.
- Try to avoid creating the chart with the idea that we do everything together. You may discuss many management decisions together, but having everyone work on and decide every decision:
    - is an inefficient use of time
    - ultimately does not lead to management transition as successors feel they still need to go back to the retiring generation for approval on every decision
    - defeats the purpose of going through the exercise of formalizing management structure
    - is not sustainable during the busiest times of the year or as the farm grows in size and complexity
    - slows the decision making process
- Consider using an external facilitator if you are having difficulty with this exercise. It is very important that there is a clear management structure as you work through transition.

EXERCISE:

- Go to the forms appendix at the back of this guide for a blank form of the Management Structure exercise on page 283.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

MANAGEMENT ACTIVITIES

The purpose of the activity is to build on the previous exercise where you identified the main management functions of the farm. The management functions are usually organized as human resources, marketing, finance and operations. Each of these areas will have management sub-functions.

A management sub-function is really the management task that is associated with each specific management function. A task **is not** considered to be a management task if it is completed by a non-management employee (or family member).

For example, under the management function of operations, harrowing may be work done by an employee but the manager is responsible for developing the harrowing schedule and assigning it to the employee. The management activity would be to supervise harrowing or create and communicate a harrowing schedule.

It's not about who does the work but who is responsible for managing the work.

The next step in the exercise is to identify the management personnel involved in each of these management sub-functions.

Why is this Relevant?

The Management Activities topic is the next step towards a defined management structure. Working through this topic, the farm family can:

- identify what areas the retiring and succeeding generation currently manage,
- what the management activities are, and
- what transitions need to take place.

This is very important to identify during transition planning and implementation.

This exercise helps to align the management with your strategic direction. It is really challenging to have an idea about where you think the farm should be in the future — especially when it involves transition — but find out that you do not have the management in place to make it happen.

How will this aid in transition planning?

- The exercise will promote communication.
- It helps to get family members on the same page.
- The communication will help to minimize the potential for conflict that comes from people not knowing or not understanding what it is they should be doing.
- The clarity will help to attract and retain employees.

Instructions

1. The management activities exercise should be completed as a group.
2. The management activities exercise should be completed according to the **current** management structure, or the first management structure chart you developed in the previous topic.
3. Read through the suggested management functions and sub-functions. This is a basic list of common management functions. Your farm may have more, less or differing functions.
4. Add or delete items according to the first management structure chart you made in the Management Structure topic.
5. For each main management function, fill in the information according to the column headings, as is relevant for your farm.
    a. Management area — the main categories. Management tasks exist within each main management function.
    b. Management sub-function — the management tasks that are involved within each management area.
    c. Who manages it — record *who currently is responsible* for making sure the task gets done correctly.
    d. Who does it — record *who actually does the task*
6. Now refer to the second or **future** management structure chart you created in the Management Structure topic. Fill in the last two columns to reflect what it is you think needs to happen in three year's time.

Management Area	Management Function	Sub-Function	Who manages it	Who does it	Who manages it	Who does it
			Currently		In 3 Years	
Human Resources	Benefits		Faye	Faye	John	John
	Payroll		Faye	Faye	John	Rebecca
	Wages		Faye	Faye	John	Rebecca
	Performance Reviews		no one	no one	John	John
	Workplace safety and training		Faye	Robert	John	John
Marketing	Projected yield		Robert	Robert	John	John
	Inventory management	Inventory reports	Robert	Robert	John	John
		Grain marketing	Robert	Robert	John	John
		Grain deliveries	Robert	Robert	John	John
	Advertising		Robert	Robert	John	Rebecca
	Website		Robert	Robert	John	Rebecca
Finance	Recordkeeping		Faye	Faye	John	Outsourced
	Year-end analysis		Faye	Faye	John	Outsourced
	Accountant		Faye	Faye	John	Outsourced
	Invoicing		Faye	Faye	John	John
	Accounts payable		Faye	Faye	John	John
	Accounts receivable		Faye	Faye	John	John
	Insurance		Faye	Faye	John	Outsourced
	Compensation		Faye	Faye	John	John
	Crop insurance		Faye	Faye	John	Outsourced
Operations	Machinery		Robert	Robert	John	John
	Planning	Needs for upcoming year	Robert	Robert	John	John
		Usage next three years	Robert	Robert	John	John
		Scheduled maintenance	Robert	Robert	John	Employee
	Service intervals		Robert	Robert	John	Employee
	Calibration of all monitors		Robert	Robert	John	Employee
	GPS equipment		Robert	Robert	John	Employee
	Trucking		Robert	Robert	John	Employee
	Safeties		Robert	Robert	John	Employee
	Manpower/Scheduling	Daily work schedule	Robert	Robert	John	John
		Weekly work schedule	Robert	Robert	John	John
		Monthly work schedule	Robert	Robert	John	John
	Nuts and bolts inventory				John	Employee
	Buildings		Faye	Employee	John	Employee
	Maintenance	General buildings	Robert	Employee	John	Employee
		Bins	Robert	Employee	John	Employee
	Improvements		Robert	Employee	John	Employee
	Crop 1 - Canola				John	Employee
	Field records		Robert	Robert	John	John
	Soil test		Robert	Outsourced	John	Employee
	Fertilizer recommendation		Robert	Outsourced	John	Employee
	Fall Fertilizer application		Robert	Robert	John	Employee
	Spring field work		Robert	Robert	John	Employee
	Planting		Robert	Robert	John	Outsourced
	Monitor weed and insects		Robert	Robert	John	Outsourced
	In-crop spraying		Robert	Robert	John	Outsourced
	Harvesting		Robert	Robert	John	Employee
	Drying		Robert	Robert	John	Employee
	Fall field work		Robert	Robert	John	Employee

How does this apply?

- Farms need to have a clear understanding of their management activities before they starting transitioning management.

PLANNING POINTERS:

- This exercise can be completed with the template provided in the appendix on page 285. However, using a computer spreadsheet program will allow you to make changes much more easily. Feel free to build your own management activities spreadsheet if you wish.
- **Note**: The exercise refers to employees. For farm families who do not have employees (where family members do the work), consider family to be employees for purposes of this exercise. You will need to refer to your management structure that was completed in the previous topic.
- There will very likely be overlap or uncertainty in how the different activities are managed. This is common.
- There will be uncertainty about what the structure should look like in three years. Make your best estimate about what you think needs to happen.
- Review the structure annually and make changes to reflect the current situation and what you think needs to happen.

WHAT TO WATCH FOR:

- Try not to become bogged down in detail. Make your best attempt and review on a regular basis if you are finding it difficult. Time will help to bring clarity to the exercise.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Management Activities exercise on page 285.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Update your transition planning form and proceed to the next topic in your chosen approach.

JOB DESCRIPTIONS

Most farm families have not developed job descriptions. The farm work, and how it is managed, just gets done. The work is largely based on how it has been done in the past and who is currently ready and able to do it.

Transition planning is about the transfer of ownership, management and labour. As the retiring generation begins to think about stepping aside, that transfer of management and labour, and giving up the control associated with it, starts to become more important. The succeeding generation starts to fulfill those roles.

Another issue is many farms have employees who at least provide some of the labour component to the farm and in more and more situations, assume management responsibilities as well.

The change provides lots of opportunities for confusion, slippage (work not getting done correctly) and frustration. This can ultimately result in poorer financial performance, which introduces several other potential issues.

In the previous topics, you developed structure around current and future (three year) management and the activities that accompany the structure. In the next topic you will look at compensation. Job descriptions, the current exercise, need to be developed and are the link between the structures, activities and compensation.

Why is this relevant?

It is difficult to do something without instructions. Without job descriptions it is increasingly difficult to manage the transition of labour and management to the next generation.

How will this help transition planning?

- Job descriptions can be used to help direct skill set development of the next generation.
- If the retiring generation leaving requires that additional labour be hired, the job descriptions will help to attract the right people for the job.
- Job descriptions help to retain current employees.
- They are useful when talking to employees and family about their performance.
- They can help to lessen the potential for conflict that comes from people not understanding what they should be doing.

Instructions

1. Key family members involved in the transition plan discussions should participate in this exercise.
2. Determine who is going to research information about job descriptions.
3. Have that person search the internet for information and examples.
4. If you are having trouble finding good information, talk to an advisor or your local MAFRD Business Development Specialist - Farm Management.

5. Once you have a good understanding of job descriptions and have a couple of good examples, develop a specific description for one of the management or labour functions on the farm.
6. Review the job description that you have created with the rest of the family members and make changes where required.
7. If you have existing employees, get their input on what you have developed.
8. Once you are happy with this first effort, proceed to develop other job descriptions as required.
9. Keep the job descriptions for each employee or family member in a personnel file.
10. Review the job descriptions annually and make improvements or adjustments as required.

EXAMPLE

Job Description

Position Title: *General Farm Labourer*

Reports To: *Farm Manager*

Date: *April, 2013*

Job Purpose/Objectives:

- *to assist farm manager in completing daily tasks in all departments of Sample Farms Ltd.*

Percentage of Time	Key Tasks
80%	**Activity 1:** *Grain Enterprise* - operation of various harvest equipment including grain truck, combine, and auger - operation of stone picker - assistant yard manager • *direct and organize incoming farm vehicles* • *end-of-day yard clean up and equipment servicing* • *prepare yard vehicles for daily tasks*
20%	**Activity 2:** *General Farm Labour* - perform various tasks as required

Applicant must be a high school graduate. Agricultural degree or diploma is an asset, although not required. Students of these programs are encouraged to apply. Chemical safety course is essential and can be attained courtesy of Sample Farms Ltd. if applicant is not already a holder of this certificate. Class 1 license is required although applicants willing to write and take exam will also be considered.

A training and development program will be established.

Experience and Skill Requirements:

No experience is required providing applicant is willing to go through rigorous on-the-job training. However, applicants who have a farm background will be considered over those that do not.

Supervision:

Supervision will be provided by Rob Sample.

Physical Requirements:

Salary Range:

Minimum: $x/hr *Maximum: $x/hr*

Work Hours:

8:00 am – 5:00 pm (excluding one hour for lunch). Average 40 hours/week.

Overtime:

Seasonal

Benefits:

Two weeks paid vacation after one year. Three weeks after five years. Not to be taken during seeding or harvest.

Comments:

Opportunities for advancement will be considered after two years.

How does this apply?

The exercises you have just completed are of significantly less value if you do not follow through with developing job descriptions. Working through this exercise will increase the chance of a successful transfer of management and labour to the next generation.

PLANNING POINTERS:

- Developing job descriptions does not need to be a difficult task.
- Review your job descriptions annually and make improvements and adjustments as required.
- Consider using an external advisor if you do not have the time or are worried about the process. If you are using an advisor for the first time, refer to the *How to Choose and Use an Advisor* document in the appendix on pages 305-308.

WHAT TO WATCH FOR:

- If you have existing employees, try to include them in the process as opposed to springing a job description on them. This runs the risk of causing anxiety or at the worst, having an employee decide to leave.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Job Descriptions exercise on page 287.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

COMPENSATION

Discussions around compensation commonly come up during transition because family members' situations usually are changing as part of the transition plan. As discussed in previous sections, the retiring generation may want to increase their compensation depending on their retirement plans. The succeeding generation may now be exploring the option of giving up an off-farm job — depending on what they will get paid on the farm. Now is a good time to put some structure to the compensation individuals are going to receive.

Designing a compensation plan for a family farm brings up the following questions:

- What is fair pay among family members?
- How do I determine a fair wage for family members and non-family employees?
- How should shareholders be paid?
- How can we resolve disputes over pay?
- How should family assets be handled?

The issue of fairness is difficult because each of us has a different idea of what is fair. A farm operating under a business-first philosophy would say that fair is being paid based on the job that is to be done — at the going market rate for the job. Hiring is based on the skills, experience and initiative that an individual brings to the job.

A farm operating with a family-first approach would say that all members are a part of the family and therefore should be paid the same regardless of the job they are doing. Another interpretation of fair is if one of the children has not done as well as the others, it may seem fair to provide equal compensation to him or her so they can enjoy the same lifestyle as others in the family.

Money can go from the family farm business to individual family members in a variety of ways. There are dividends, wages, bonuses, merit increases, loans, gifts (housing, school, vehicles,) training allowances, perks (vehicles, vacations, trips, business and personal expense allowances), ownership and equity gains in land, inheritance, trusts and bequests.

Managing the Multi-Generational Farm. Farm Management Canada. Ottawa, Ontario

Why is this relevant?

A well designed compensation system that makes sense and is understood by everybody accomplishes the following:

- maintains control and structure over pay
- keeps the business on track
- promotes individual development
- provides a clear statement about work ethics and values
- encourages individuals to accept financial responsibility for themselves
- provides a clear understanding about the value of different jobs
- promotes trust
- motivates individuals to perform well
- distinguishes between compensation and gifts

The compensation policy can include specific suggestions that pertain to the transition plan and its implementation.

How will this help transition planning?

- Talking about compensation (money) can help to lessen the potential for conflict.
- A compensation policy that is shared with farming and non-farming family members helps to keep the non-farming members current with the business of the farm.
- It can help to reduce the potential for hard feelings between arms-length employees and family members who may be doing similar jobs but getting paid differently. This is done by developing a more appropriate way of compensating arms-length employees and family members.
- Once developed, it becomes a basis to determine compensation when other family members decided to return to the farm.

Instructions

The compensation exercise is to be completed by everyone together.

1. Go through the following list of things you can consider as you create a family compensation philosophy. Record the answers to the questions on a separate piece of paper. Remember that you can refer to the different forms of compensation listed above.
   - Will wages be paid?
     - What will the wage rates be based on? (market value, equal wages for all, perception of need, other)
     - What criteria will be by used to increase base rates? (inflation, cost of living, company performance, need, merit)
     - What will the timing be for wage increases?

- Will dividends be paid? **NOTE:** *Even if your farm is unincorporated, the concept of dividends can still be applied.*
    - What will dividends be based upon? (farm equity growth, net income performance)
- Will bonuses be paid?
    - If so, what will bonuses be based upon? (seasonal, ex: Christmas, harvest etc., company performance, individual performance, reaching training or education milestones)
- What will be the philosophy be around gifts or entitlements?
    - Examples: All children will receive a vehicle on their 17th birthday. All children will receive four years of paid education. The family will go on one annual paid vacation. All children will receive a set amount of money towards their first home down payment. Interest free loans will be provided.
- Will business perks be provided?
    - What perks will be provided? (phones, utilities, vehicles, fuel, business trips, housing etc.) **NOTE**: *Be sure to check with your accountant regarding the tax implications of the business perks you are considering.*
    - Will there be limits on perks?
- Will training be part of the compensation plan?
    - Will all members have equal access to training?
    - What will be the limits to time and money spent on training?
    - Will training be mandatory or included in merit increases or bonuses?
- Will ownership of assets or shares of the company be part of the compensation plan?
    - When will members become owners?
    - How will ownership amounts be decided and awarded?
    - Will assets be transferred to individuals?
    - Will the farm make payments on personal assets?
- Will inheritances or bequests be part of the compensation plan?
    - What will be the criteria to earn an inheritance or bequest?

2. Create and write down a compensation philosophy according to the sample template (an example is shown below).
3. Store the document for future reference.

EXAMPLE

Sample Farms Ltd. Compensation Philosophy

For Owners

- After five years of work on the farm, family employees can take their share of bonuses, wage increases and increases in partnership interest (or common shares of a corporation).
- Family employees with less than five years can accumulate their bonuses and merit pay.
- All owners and their spouses will meet once or twice a year. All persons attending will be reimbursed for reasonable travel expenses and paid a set per diem amount.
- All owners will receive a minimum amount per year.
- Dividends will be paid in the amount of two per cent of earnings.

For Family

- Tuition and student expenses will be paid.
- Loans for houses and vehicles will be available at attractive interest rates, as per management approval.
- Gifts will be given independent of the business.

For Family Employees

- Wages will be objectively determined.
- Wages will be somewhat conservative (ex: 75 per cent of market value) given family ownership and the variability of the farm economy.
- Wages will be determined based on the size of the job, responsibility, relevant training and experience, and working conditions.
- Wage increases and vacations will be based on years of experience, seniority and cost of living.
- Annual merit pay will be awarded. This will be based on jointly agreed-upon goals that will be determined at an annual performance planning meeting.

How does this apply?

The compensation philosophy should be shared with all family members involved in the business or those who may be looking to become involved in the business. Compensation is an area that can cause conflict if family members feel they are not being treated fairly or someone is not pulling their weight. It is important to review the compensation policy at least annually:

- to keep it current
- to address any issues with compensation that family members have
- to avoid conflict over what members are getting paid

PLANNING POINTERS:

- Consider using an external facilitator if you are concerned about the potential for conflict. Money and emotion are closely tied. Discussions about money easily trigger disagreement and conflict.
- Review the compensation policy annually and make the appropriate adjustments.
- Try to be fair and realistic about compensation — both from an underpaying and overpaying perspective.

WHAT TO WATCH FOR:

- Do not try to maintain control by tightly hanging onto the cheque book.
- Do not pay someone more than what the task they are doing is worth. If the employee (or family member) has been around for a long time, find other ways to appropriately reward them for their loyalty.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Compensation exercise on page 289.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

TRAINING AND SKILL SET DEVELOPMENT

In the next exercise, Roles, Responsibilities and Authority you identify the tasks that need to be transitioned as part of the management transition plan. The plans you make most likely involve internal on the job training — whether or not you formally talked about any training. This is the most common form of management transition on farms.

However, as part of the transition plan, external training may be beneficial. The next step in the management transition plan is to identify areas where external training may be beneficial and to develop a plan for this training.

The following list of training resources and courses is **not** meant to be an extensive list. It is meant to be a suggestion of known training resources for farm families. Consider consulting the following for additional training and education opportunities:

- government
- agricultural trade shows
- local fairs and exhibitions
- banks, credit unions or other financial institutions
- insurance agents
- producer groups and associations
- producers publications and media outlets
- university agriculture departments
- agricultural colleges

The Executive Program for Agricultural Producers (TEPAP)

TEPAP teaches advanced agribusiness skills such as international business development, niche market evaluation, analyzing and forecasting financial position, as well as personnel management and negotiation. Sharpen your management and leadership skills. Check the appendix on page 311 for contact information.

Canadian Total Excellence in Agricultural Management (CTEAM)

CTEAM is the most innovative program of its kind in Canada where progressive farmers come together to learn from each other, network and access the top agricultural experts in Canada. Check the appendix on page 311 for contact information.

Farm Credit Canada (FCC) Learning

FCC learning events feature hands-on workshops and seminars to help you make the most of your opportunities. Improve your management skills. Get information and insight, or gain a deeper understanding of issues that affect our industry. Check the appendix on page 311 for contact information.

Farm Management Canada Agriwebinar®

The Agriwebinar® is a web-based conference bringing the expertise of today's agricultural leaders that will inform and inspire you from the comfort of your home or office. There is no travel and no reason to miss out. The Agriwebinar® is free and anyone can participate as long as they have a computer and an internet connection. Even computers connected by a dial-up service can participate.

Check the appendix on page 311 for contact information.

Agritalent.ca – Government of Canada

This bilingual database provides concise listings of training and learning programs in agriculture offered across Canada. It was developed for producers, farm managers and other workers in the agriculture sector, as well as those without any experience seeking learning opportunities. Check the appendix on page 311 for contact information.

Why is this relevant?

External training is beneficial to family owned businesses. It may introduce new skills to the family, improve the management abilities of the team overall and introduce members to industry contacts. Making a plan for external training with associated timelines makes sure that individuals attain the skills they need to accomplish management transition plans.

Instructions

Refer to your Roles, Responsibilities and Authority chart that you make in the next step.

1. Review the roles and responsibilities that you made a transition plan for.
2. Determine if anyone would benefit from external training.
3. If yes, consult the list above, your MAFRD Go Office or other training/agriculture resources for opportunities.
4. Develop a training plan that includes:
    a. an annual budget
    b. who will attend courses or seminars
    c. when they will attend
    d. any follow-up to inform or educate the rest of the family
5. Review the training plan annually and make adjustments as required.

EXAMPLE

TRAINING AND SKILL SET DEVELOPMENT

Activity 1: Attend a workshop on financial management.		
Hosting organization: Farm Credit Canada		
Location (if applicable): Rural town, MB		
Budget: $75.00 for travel costs		
Who Attends	**Dates**	**Follow-up**
Rebecca and John	March 23rd	Report back to the family.
		Determine if there's value in attending the second workshop.

How does this apply?

Keep this document on file and refer back to it annually or as your situation changes. Use the following questions to guide the review.

- Are training plans happening according to schedule?
- Have family members run into problems maintaining the training plan timeline?
- Are there further training and skill-set plans that have been identified during the year and that need to be addressed?

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Training and Skill Set Development exercise on page 293.

WHAT TO WATCH FOR:

- If you are having trouble finding a course or seminar with subject material that meets your needs, contact your local MAFRD GO Office Business Development Specialist - Farm Management for help and further information.
- Refer to the MAFRD *Human Resource Management for Farm Businesses in Manitoba* for additional information.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

ROLES, RESPONSIBILITIES AND AUTHORITY

One of the most difficult parts of transition is the transition of management (or letting go) by the retiring generation. This process doesn't happen overnight. Yet it needs to happen. Similarly, the succeeding generation may not want to give up some of their responsibilities to employees or contractors but time constraints may make it necessary.

One way of easing concerns about letting go is to gradually transition management functions over time through a structured plan.

Many families will say that their plan for passing on the management is to have the succeeding generation simply start doing things and work alongside the retiring generation. This method may succeed. However, there is no timeline associated with it.

The two generations may work alongside each other for an undetermined amount of time and never fully make the transition to the younger generation. Or, the transition comes very suddenly when the retiring generation decides to retire, becomes ill, or in a worst-case scenario, passes away.

Why is this relevant?

A structured transition plan that, at a minimum, broadly lists when and how the transition will take place helps families to move past the point where everyone works on everything together. It also helps families, that are having trouble letting go, to commit to a plan that sees them stepping down from their responsibilities.

How will this help transition planning?

- Things can easily fall through the cracks during transition planning and implementation.
- This exercise helps to reduce the chance that something gets missed.
- The exercise promotes communication about the transition of management.
- It helps to reduce the potential for conflict.
- The exercise helps to increase the likelihood of a successful transition.

Instructions:

This exercise should be completed by all management team members.

1. Refer to the job descriptions and management tasks you created in previous topics to identify the roles and responsibilities that are currently individually or jointly being managed by the retiring generation.
2. List these tasks in the first column of the table found in the forms appendix on page 291.
3. Fill out the remainder of the table as follows:
    a. Responsible:
        i. List who is currently responsible.
    b. Changes to authority:
        i. List who this responsibility will be transitioned to.

c. Timeline:
   i. List when the transition will start and be completed.

d. Action:
   i. List how the transition will happen from start to finish with the corresponding timeline.

EXAMPLE: In this example, Rob and Faye Sample are in the process of transitioning the farm to John and Rebecca Sample. The farm had one full-time employee, Jim.

Role or Responsibility	Responsible	Changes to Authority	Timeline	Action
Main contact with lenders/ accountants etc.	*Faye*	*Transition to John*	*one year*	*John and Rebecca to go with Faye and Rob to next meeting with lenders and accountants. Communicate plan to professionals. Faye to defer all contact with professionals to John but remain available for support.*
Bookkeeping and paying bills	*Faye*	*Transition to Rebecca*	*two years*	*Rebecca to start shadowing Faye in these tasks. Rebecca to start paying bills and bookkeeping in six months with Faye's supervision and support. Change address with suppliers to John and Rebecca after one year and move bookkeeping over to their computer.*
Decisions regarding buyers/ suppliers	*Rob*	*Transition to John*	*three years*	*Rob to include John in all decisions and negotiations. John to begin taking over contact with suppliers in six months, complete after 1.5 years. John to take over contact with buyers after one year, complete after two years. Rob can stay involved but will not have final say after three years.*

How does this apply?

Keep this document on file and refer to it annually or as your situation changes. Use these questions to help keep the exercise current.

- Are the transitions happening according to schedule?
- Have family members run into problems maintaining the transition plan timeline?
- Are there further transition plans that have been identified during the year and need to be addressed?

PLANNING POINTERS:

- This exercise may seem like something that can be put on hold until a later date. However, it is hard to overstate the importance of having these agreements in place before beginning your transition. Do not skip this activity.

WHAT TO WATCH FOR:

- Letting go or giving up control can be very difficult for some individuals. A gradual approach can help individuals to overcome concerns they have about letting go.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Roles, Responsibilities and Authority exercise on page 291.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

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Topic 21: Agreements

Farms enter into formal (written) and informal agreements all the time. Trust is used the basis from which business is conducted in virtually all situations and especially where the agreements are informal (not written). Trust works well until there is a disagreement or one party of the agreement becomes upset. A formal agreement helps to work through disagreements but in the absence of a formal agreement, resolution can be extremely difficult.

Implementing a transition plan will require that specific agreements be in place. These agreements must be formalized.

This topic is not intended to replace the advice from a professional.

UNANIMOUS SHAREHOLDER AGREEMENT

A shareholders agreement is an agreement between the shareholders of a corporation covering the following items:

- ownership and voting rights
- control and management
- provision for the resolution of future disputes
- how any future capital contributions or financing arrangements are to be made
- other provisions as dictated by the shareholders

Not all companies have a shareholder agreement, but it is **strongly** recommended. Partnerships can have a similar document called a partnership agreement. To be legally binding, shareholder and partnership agreements must be written by a lawyer.

This topic is **not** designed to create a legally binding document. It is designed to help families to identify the points they would like structured into agreements and become part of their transition plan.

The following list of considerations is designed to cover the parts of a shareholder agreement. Some of these parts are not required for partnership agreements but can be included. If you are completing this exercise for a partnership agreement, consider all parts. Your lawyer can advise which ones can or should be included in the final partnership agreement.

Why is this relevant?

The following list of agreement considerations can be referred to for any of the following situations:

- existing corporations that already have a shareholder agreement in place but will need it to be modified or updated as part of the transition plan
- existing corporations that do not have a shareholder agreement already in place
- new corporations that will be formed as part of the transition plan
- partnerships that already have a partnership agreement in place but will need it to be modified or updated as part of the transition plan
- new partnerships that will be formed as part of the transition plan

How will this help transition planning?

- The exercise promotes communication.
- It helps family members understand how future issues will be resolved.
- Once completed, the agreements provide a common base from which the transition can move forward.
- The agreements can be shared with non-farming family members and used to keep them informed about the structure of the business.
- It can help to minimize the potential for conflict.
- It requires that you talk to an advisor. Getting external input can be really valuable.

Instructions

1. If you are modifying an existing shareholder or partnership agreement:
   a. Refer to your existing agreement.
   b. Go through the following list of considerations and change, modify, or comment as applicable.
   c. Take your modified document to your lawyer and he or she will make the necessary changes and suggest other things you should consider.
2. If you are creating a new shareholder or partnership agreement:
   a. Go through the existing list of considerations and document or comment as applicable.
   b. Take the document to your lawyer and he or she will make the necessary changes and make suggestions for other things you should consider.

How does this apply?

This exercise is designed to have families begin considering the items and areas they would like structured into their agreements as part of the transition. Take your agreement comments and questions to your lawyer for final review.

PLANNING POINTERS:

- Do not defer this activity.

WHAT TO WATCH FOR:

- Having an agreement in place **before** you have to deal with issues about the structure of the business is a huge advantage. It is virtually impossible to come to an agreement on how you would have resolved an issue after the issue is already a reality — **especially** if there is conflict.
- Do not skip this activity.

EXERCISE: Go to the forms appendix at the back of this guide for the Unanimous Shareholder Agreements information on pages 295-298.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

BUSINESS AGREEMENTS

In addition to shareholder or partnership agreements, it's important to consider all business agreements that may need to change in structure or name, as part of the transition plan. These agreements can include supplier and customer contracts, lending agreements and other business agreements.

Why is this relevant?

Once the transition plan is mostly in place, a technical part of implementation is changing the names on, or the structure of, business agreements. The personal relationships that accompany the business agreements will, at some point in time, transition to the succeeding generation.

How will this help transition planning?

- The exercise can be a good teaching tool as the succeeding generation learns about the different agreements that are in place.
- Being proactive in making arrangements with business partners can be beneficial to the farm.
- It will reflect positively on the family.
- Making sure the arrangements, agreements and relationships are kept current can help to keep opportunities open. For example, a landlord heard that there may be a change in ownership and management and decided to sell to someone else, not knowing that you would have been interested.

Instructions

All family members who are actively involved in the business should complete this exercise. Consider the following list of agreements:

- supplier contracts
- customer contracts
- lender agreements
- trade-credit accounts
- marketing contracts
- landlord contracts
- leasing contracts
- other business agreements

1. Gather all the business agreements in effect on your farm.
2. Review the business agreements and discuss the history and terms with the succeeding generation.
3. Determine which agreements need to be adjusted.
    a. Do names or addresses on these contracts need to be changed on transition?
    b. If yes, decide who will ensure the changes take place and when.

4. Decide who is going to be responsible for contacting the other parties to inform them of the impending transition.
5. Store the documents for future reference.

How does this apply?

Agreements will often survive the transition. Attention must be taken to make sure that the succeeding generation knows and understands the agreements in place.

PLANNING POINTERS:

- Consider taking the succeeding generation to meetings with business partners and making formal introductions as a first step in the transition.
- After an appropriate time, let the succeeding generation independently conduct some of the business with partners.

WHAT TO WATCH FOR:

- Once agreement is reached on how some of the transition is going to be implemented, it is easy to defer formalizing the agreements.
- Do not let this topic slip through the cracks.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

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Topic 22: Deal Breaker Issues

Most farmers will have been involved in a transaction or business deal where, at the last minute, something changed and derailed the deal. Similarly, this can happen in transition planning. The transition planning process in most situations is spread over a considerable length of time. People involved have opinions on what they think should happen. Frustration and conflict can arise as situations change.

The purpose of conducting a review of deal breaker issues is to proactively determine whether or not issues exist that could derail the whole process. The next steps in the transition planning process are to talk with your professional advisors (lawyers, accountants, insurance and investment advisors). These discussions result in costs. The result of these discussions are the first steps in implementation. Therefore, it is better to work through this review as a final check and make appropriate corrective actions where required before proceeding.

How will this help transition planning?

- The exercise focuses discussion on potential issues that may be unresolved or may become an issue in the future.
- It can save a significant amount of time, money and emotion by dealing with unresolved issues now, before moving to discussions with professional advisors and plan implementation.

Instructions

1. All family members involved in the transition plan discussions should participate in this exercise.
2. Each family member should review the questions included in the exercise.
3. Each family member should think about the discussions that occurred within each of the question areas of the transition planning process.
4. Once everyone has reviewed the questions, discuss them one by one.
5. Answer each question with a yes or no.
6. Enter appropriate comments. There may be no comments if you have answered no to the question.
7. If corrective action is required (usually when the answer to the question was yes), decide among the family members what action is required and write it down.
8. Decide among the family members if all deal breaker issues have been identified and resolved and answer the final question appropriately. If the answer is no, stop the process and work to resolve whatever outstanding issues may exist.
9. If the answer to the last question is yes, move on to the next step in the transition planning process.

EXAMPLE: In this example, Rob and Faye Sample are in the process of transitioning the farm to John and Rebecca Sample. The farm had one full-time employee, Jim.

DEAL BREAKER ISSUES

Complexities

Are there succession complexities outstanding that have not been dealt with?

Comments: *Yes, but follow-up plans have been made.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments: *No*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Strategic Direction

Can the risks identified be mitigated satisfactorily so as to not endanger the farm's future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments: *The risk of management capacity can be developed to deal with farm growth. Yes stakeholders are committed to managing according to the action plans and financial targets.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any seriously negative feedback from professionals that cannot be incorporated into the plan?

Comments: *Yes stakeholders are satisfied and all feedback can be incorporated into the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments: *John and Rebecca have agreed to the compensation plan but Rob and Faye feel they may not be being realistic about the income they will need as a full time farm family. They are worried John and Rebecca will come back asking for more money in a few years' time and the farm may or may not be able to provide this increase in wages.*

Corrective Action (if any): *Go back to the financial plan and increase wages to see if the farm can support this level of withdrawal.*

With corrective action can the plan proceed to Agreements and Implementation? *Yes. If the plan shows the farm cannot support higher income levels, Rebecca has agreed to work off the farm if necessary.*

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments: *All stakeholders have agreed to the plan.*

Corrective Action (if any): *No*

With corrective action can the plan proceed to Agreements and Implementation? *(N/A)*

Are we ready to proceed to Implementation? *(YES)*

How does this apply?

This section is designed to put the transition planning process on hold briefly and encourage everyone to review aspects of the plan that have been discussed. It is an opportunity to look at things that may still be troubling some of the family members before the plan moves to implementation.

PLANNING POINTERS:

- Try to make sure that everyone has input into this discussion.
- Store the document for future reference in case someone in the family raises an issue in the future. You can point out that everyone had a clear opportunity to raise any concerns or objections.

EXERCISE: Go to the forms appendix at the back of this guide for a blank copy of the Deal Breaker Issues exercise on pages 299-302.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

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Topic 23: Meeting and Communication

Transition Plan Review

Congratulations! You have completed all the steps in developing your plan. This is an appropriate time to conduct a thorough review before deciding if you want to have an accountant or lawyer review and sign off on your plan. Schedule a meeting to share your progress and make any necessary changes to your plan.

PLANNING POINTERS:

- You may want to include the management team, the retiring generation, and the succeeding generation. Other people can attend as you see fit.
- There is a sample agenda for this meeting included in the appendix section of this guide on page 303.

WHAT TO WATCH FOR:

- There could be some differences of opinion and therefore, disagreement and conflict.
- Consider using an external facilitator if you are concerned about the potential for conflict.

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Topic 24: Accountant Review

The purpose of the accountant review is to present what you have accomplished to date in your transition planning discussion to your accountant and to begin discussions about implementation. You have just finished working through the Agreements topic and have taken a final look at the process you have followed in the Deal Breaker Issues topic. It's time to get some feedback from your accountant.

How will this help transition planning?

- Having a preliminary discussion with your accountant can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date, as part of the transition planning process
- It will help to keep family members focused on the planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions

1. Decide who will go to the meeting with your accountant.
2. Decide what information will be shared with your accountant.
3. Make an appointment with your accountant and let them know what you want to talk about. You can send them an agenda or list of discussion points if you wish. Most accountants would be very happy to have this information before the meeting so they can prepare.
4. Prepare for the meeting by organizing information and writing down questions.
5. Someone attending the meeting should write down notes.
6. After the meeting, distribute the notes to family members.
7. Incorporate the feedback and information that you get from your accountant into the Final Plan Adjustment step of this guide.
8. If you learn that some corrective actions are required, put the transition planning process on hold until the issues are resolved.

PLANNING POINTERS:

- The more prepared you are for the meeting, the more you will get out of the discussions.
- As well, the more prepared your accountant is for the meeting, the more you will get out of the discussion. So, sending them information in advance can be a very good idea.
- If you are using a new advisor, refer to the *How to Choose and Work with an Advisor* document found in the appendix section on pages 305-308.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 25: Lawyer Review

The purpose of the lawyer review is to present what you have accomplished to date in your transition planning discussion to your lawyer and to begin discussions about implementation. You have just finished working through the Agreements topic and have taken a final look at the process you have followed in the Deal Breaker Issues topic. It's time to get some feedback from your lawyer.

How will this help transition planning?

- Having a preliminary discussion with your lawyer can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date as part of the transition planning process.
- It will help to keep family members focused on the planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions

1. Decide who will go to the meeting with your lawyer.
2. Decide what information will be shared with your lawyer.
3. Make an appointment with your lawyer and let them know what you want to talk about. You can send them an agenda or list of discussion points if you wish. Most lawyers would be very happy to have this information before the meeting so they can prepare.
4. Prepare for the meeting by organizing information and writing down questions.
5. Someone attending the meeting should write down notes.
6. After the meeting, distribute the notes to family members.
7. Incorporate the feedback and information that you get from your lawyer into the final plan adjustments steps in the transition planning process.
8. If you learn that some corrective actions are required, put the transition planning process on hold until the issues are resolved.

PLANNING POINTERS:

- The more prepared you are for the meeting, the more you will get out of the discussions.
- As well, the more prepared your lawyer is for the meeting, the more you will get out of the discussion. So, sending them information in advance can be a very good idea.
- If you are using a new advisor, refer to the *How to Choose and Work with an Advisor* document found in the appendix section on pages 305-308.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 26: Final Plan Adjustments

The purpose of the final plan adjustments is to take the feedback and information that you have received from your meetings with your accountant and lawyer and make any changes **before** proceeding with implementation.

There likely will have been some suggestions or comments from the meetings that will make you want to take another look at some of the different parts of your transition plan. You are getting very close to having your plan finalized. The next step is implementation. It can be costly, and maybe impossible, to undo actions taken as part of the implementation of your plan. Therefore, it makes sense to make the appropriate adjustments to your plan, based on the feedback and information gathered from the accountant and lawyer meetings, **before** you proceed to implementation.

How will this help transition planning?

- Incorporating changes to your plan, based on the preliminary discussions you had with your lawyer and accountant, can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date as part of the transition planning process.
- It will help to keep family members focused on the planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions

1. Family members involved in the transition plan discussions should participate in this exercise.
2. Decide what needs to be done to adjust the plan.
3. Revisit your Action Plan exercise and make the appropriate adjustments to existing action plans, or create new ones.
4. The revised action plans should incorporate what the accountant and lawyer meetings indicated should happen.
5. Distribute the changes to your non-farming family members as you wish.

PLANNING POINTERS:

- The more detail you use in making adjustments to the action plans the better information you will have as a base from which to proceed with implementation.
- Paying particular attention to this exercise will significantly increase the likelihood of a successful transition.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 27: Accountant / Lawyer Sign-off

The purpose of the accountant and lawyer sign-off is to present the changes you have made to your transition plan in your Final Plan Adjustments exercise. It's now time to get feedback from you advisors and have them sign off on the plan. Your next steps will be to proceed with implementation. This is one last chance to get information and feedback from your advisors before you actually proceed with implementation.

How will this aid in transition planning?

- Having this final discussion with your advisors can save time and money down the road.
- It will help to crystallize the various discussions you will have had to date, as part of the transition planning process.
- It will help to keep family members focused on the planning process.
- The feedback and information you get can be incorporated into future planning discussions.

Instructions:

1. Decide who will go to the meetings with your advisors.
2. Make appointments with your advisors and let them know what you want to talk about. You can send them an agenda or list of discussion points if you wish.
3. Prepare for the meetings by organizing information and writing down any last questions.
4. Someone attending the meetings should write down notes.
5. After the meeting, distribute the notes to family members.
6. If you learn, even at this last step, that some corrective actions are required, put the transition planning process on hold until the issues are resolved.

PLANNING POINTERS:

- The more prepared you are for the meetings, the more you will get out of the discussions.
- As well, the more prepared your advisors are for the meetings, the more you will get out of the discussions. So, sending them information in advance can be a very good idea.

Next steps

Congratulations on completing this topic. You are now a step closer to having a transition plan for your farm. Please proceed to the next topic area on your Transition Plan, but don't forget to add any assigned tasks that were generated by working through this topic.

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

Topic 28: Meeting and Communication

Final Meeting

Now that the transition planning process is complete, this is an appropriate time to hold a final meeting to share your plan and discuss plan implementation.

PLANNING POINTERS:

- You may want to include the management team, the retiring generation, and the succeeding generation.
- This meeting can also be open to a wide range of attendees, such as relatives, friends, and others as you see fit.
- There is a sample agenda for this meeting included in the appendix section of this guide on page 309.

WHAT TO WATCH FOR:

- The potential for conflict should be significantly lower during this meeting compared to earlier meetings.
  - However, there could still be some differences of opinion and therefore, disagreement and conflict.
  - Consider using an external facilitator if you are concerned about the potential for conflict

Planning progress

READINESS ASSESSMENT
PLAN DEVELOPMENT
PLAN IMPLEMENTATION

CHAPTER 5

Phase 3 – Plan Implementation

Plan implementation is specific to each family, their circumstances and their wishes. Timelines can vary from business to business. Owners should develop specific implementation plans to meet their needs. The implementation plans should build on the exercises and activities that they worked through to build their plan.

Everyone wants a successful transition. Careful planning and attention to implementation significantly increases the likelihood of a successful transition.

CHAPTER 5

Phase 3 – Plan Implementation

Congratulations! You've successfully worked your way through the transition planning process. You had different planning approach options to choose from when you started. How long it's taken you to get this far will depend on which planning approach you chose.

The work ahead of you now involves implementing what's included in your plan. Most families will have already started with some of the implementation. Changes and opportunities come along that often require decisions that have transition implications. However, there can be situations where decisions were made prior to the plan being fully developed. This can create challenges. Adjustments to your plan will have to be made if you find yourselves dealing with this reality.

In any event, during the planning process, you will have recorded several outstanding tasks in your specific plan approach template. **These tasks are your plan. Acting on these tasks is the implementation.**

Plan implementation is specific to each family, their circumstances and their wishes. Timelines can vary from farm to farm. Farm families should develop specific implementation plans to meet their needs. The implementation plans should build on the exercises and topics they worked through to build their plan.

Why is this relevant?

Working through each of these tasks is key to a successful implementation. The devil is in the detail. Attention to each task is important.

How will this aid in transition planning?

- **Careful planning and attention to implementation significantly increases the likelihood of a successful transition.**
- Following the action plans:
    - Helps to keep the process moving forward.
    - Requires that information be shared which in turn increases communication.
    - Increased communication helps to minimize the potential for conflict.

Instructions:

1. Determine who is going to be responsible for monitoring each task to make sure they are completed.
2. Review the task list to make sure that people are okay with their responsibilities.
    a. Reassign responsibilities where needed.
3. IMPORTANT
    a. If some of these tasks require more detail than is provided in the specific plan approach template, use the Critical Issue Action Plan template.
4. Agree on how information is going to be communicated. Options include:
    a. Information distributed as it arrives.
    b. Information distributed on a set schedule. For example, once a month.
        i. This option might be preferred as it can help to maintain individual's focus.
    c. Scheduled meetings.
        i. Meetings can complement regular information distribution.
        ii. If you choose to have meetings, follow the meeting protocols that you learned in the planning process.
5. Keep advisors informed with changes, as required.
6. Store documents for future reference.

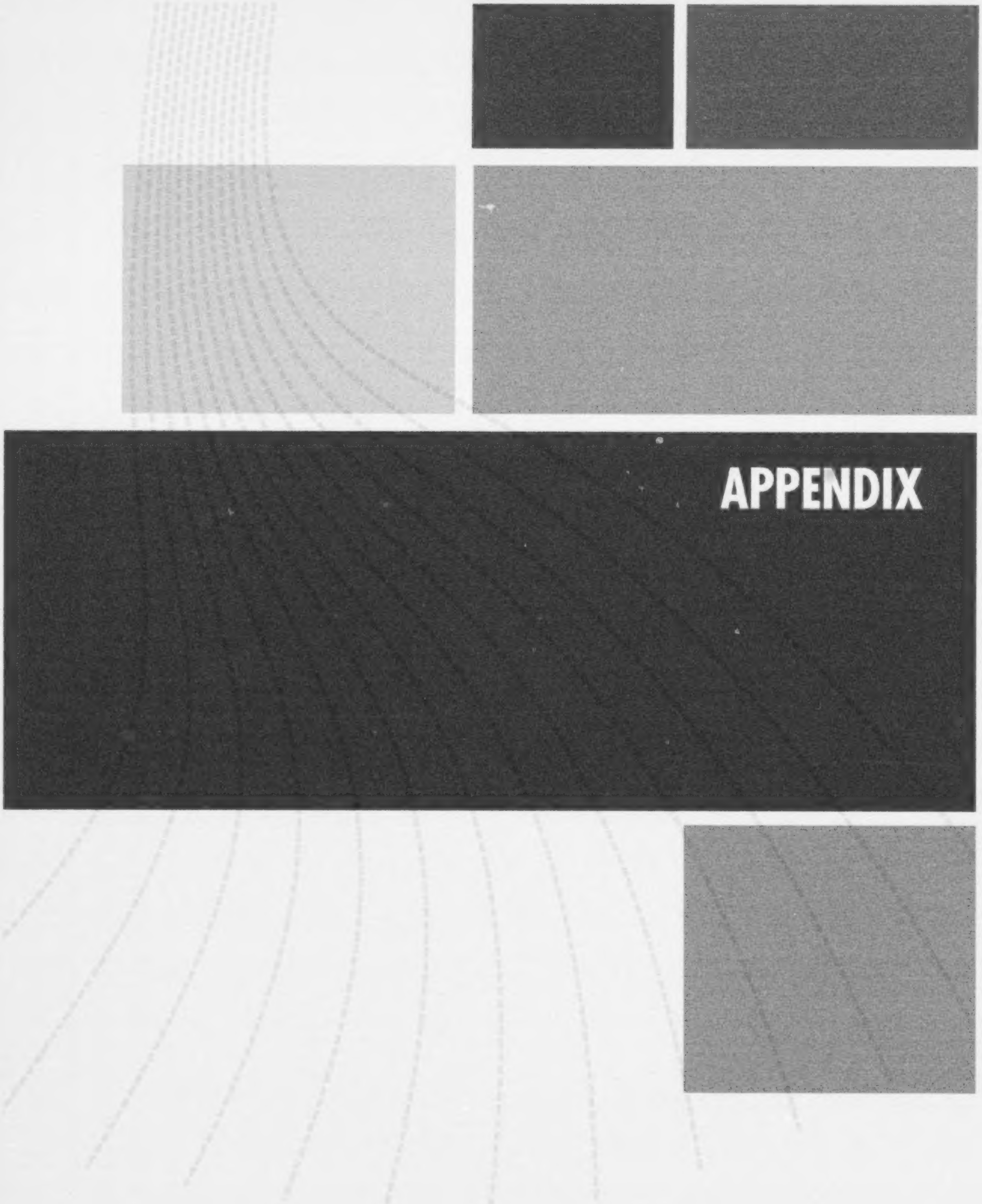
PLANNING POINTERS:

- Consider changing who is responsible for keeping the process moving forward. It helps to keep the process fresh and can help to avoid frustration and conflict.
- Schedule regular (annual) meetings with advisors even if your plans haven't changed. There may be tax or legal changes that can impact on your plan and situation.
- Completion dates are a form of accountability. Try to avoid unnecessarily criticizing someone who doesn't get something done when it was due. Try setting another date and getting a commitment that it will get done this time.
- Try to have only one person responsible for each task.

WHAT TO WATCH FOR:

- Watch for drift. Things not getting done when they were supposed to be done causes delays.
- If one particular family member is not following through on their commitment, consider assigning the task to a different family member.

APPENDIX



Appendix

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Transition Plan - Comprehensive Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	Outstanding tasks:				
	Individual Values				
	Outstanding tasks:				
	Family Values				
	Outstanding tasks:				
	Family First / Business First				
	Outstanding tasks:				
	Retiring Generation				
	Outstanding tasks:				
	Succeeding Generation				
	Outstanding tasks:				
	Financial Performance				
	Outstanding tasks:				
	Management Assessment				
	Outstanding tasks:				
	Personalities				
	Outstanding tasks:				
	Historical Bus. Dev.				
	Outstanding tasks:				

	Meeting and Communication				
	Outstanding tasks:				
	Go / No Go Decision				
	Outstanding tasks:				
	Statement of Intent				
	Outstanding tasks:				
Plan Development					
	Foundation				
		Challenges in Transition Planning			
		Guiding Principles			
		Conflict Management			
		Resource Team Identification			
		Advisor Information Report			
	Outstanding tasks:				
	Strategic Direction				
		Vision			
		Situational Analysis			
		Risk Assessment			
		Critical Issues			
		Critical Issue Action Plans			
		Financial Targets			
	Outstanding tasks:				
	Meeting and Communication				
	Transition Options				

		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	Outstanding tasks:				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding tasks:				
	Human Resources				
		Management Structure			
		Management Activities			
		Job Descriptions			
		Compensation			
		Training and Skill Set Development			
		Roles, Responsibilities and Authority			
	Outstanding tasks:				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	Outstanding tasks:				

	Deal Breaker Issues				
	Outstanding tasks:				
	Meeting and Communication				
	Accountant Review				
	Lawyer Review				
	Outstanding tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer sign-off				
	Outstanding tasks:				
	Meeting and Communication				
Plan Implementation					

Transition Plan - Condensed Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	Outstanding tasks:				
	Retiring Generation				
	Outstanding tasks:				
	Succeeding Generation				
	Outstanding tasks:				
	Financial Performance				
	Outstanding tasks:				
	Management Assessment				
	Outstanding tasks:				
	Statement of Intent				
	Outstanding tasks:				
Plan Development					
	Foundation				
		Guiding Principles			
		Resource Team Identification			
	Outstanding tasks:				
	Strategic Direction				
		Situational Analysis			
		Critical Issues			

		Financial Targets			
	Outstanding tasks:				
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	Outstanding tasks.				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding tasks:				
	Accountant Review				
	Lawyer Review				
	Outstanding tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer sign-off				
	Outstanding tasks:				
Plan Implementation					

Transition Plan - Estate Planning Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	Outstanding tasks:				
Plan Development					
	Transition Options				
		Succeeding Generation			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	Outstanding tasks:				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding tasks:				
	Accountant Review				
	Lawyer Review				
	Outstanding tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer sign-off				
	Outstanding tasks:				
Plan Implementation					

Transition Plan - Ownership and Tax Strategy Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	Outstanding tasks:				
	Financial Performance				
Plan Development	*Outstanding tasks:*				
	Transition Options				
		Ownership Options			
		Business Structure			
	Outstanding tasks:				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	Outstanding tasks:				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	Outstanding tasks:				
	Accountant Review				
	Lawyer Review				
	Outstanding tasks:				
	Final Plan Adjustments				
	Accountant / Lawyer sign-off				
	Outstanding tasks:				
Plan Implementation					

Transition Plan - User-Defined Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					
Outstanding tasks:					

Goals

Name: ______________________ Date: ______________________

Personal:

Short Term (one year) *SMART

Intermediate Term (five years) *SMART

Long Term (ten years) *SMART

***Review your goals to see if they meet the SMART guidelines.**
Make changes if necessary.

Name: Date:

Personal:

Short Term (one year) *SMART

Intermediate Term (five years) *SMART

Long Term (ten years) *SMART

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name: ____________________ Date: ____________________

Personal:

Short Term (one year) *SMART

____

____

____

Intermediate Term (five years) *SMART

____

____

____

Long Term (ten years) *SMART

____

____

____

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Individual Values

1. From this list of values circle the ten that are most important to you.

accomplishment, success
accountability
accuracy
adventure
all for one and one for all
appearance
beauty
belonging
best use of time and resources
calm, quietude, peace
challenge
change
cleanliness, orderliness
collaboration
commitment
communication
community
competence
competition
concern for others
connection
content over form
continuous improvement
co-operation
co-ordination
creativity
customer satisfaction
decisiveness
delight of being, joy
democracy
discipline
discovery
diversity
ease of use
efficiency
equality
excellence
fairness
faith
faithfulness
family
family feeling
flair
freedom
friendship
fun
global view
goodwill
goodness
gratitude
hard work
harmony
health
helping
honesty
honour
improvement
independence
individuality
inner peace, calm, quietude
innovation
integrity
intensity
intimacy
justice
knowledge
leadership
love, romance
loyalty
meaning
merit
money
openness
patriotism
peace, non-violence
perfection
personal growth
pleasure
power
practicality
preservation
privacy
progress
prosperity, wealth
punctuality
quality of work
recognition
regularity
reliability
resourcefulness
respect for others
responsiveness
results-oriented
rule of law
safety
satisfying others
security
self-acceptance
self-control
self-giving
self-reliance
self-thinking
service (to others, society)
simplicity
skill
solving problems
speed
spiritual growth
stability
standardization
status
strength
success, achievement
systemization
teamwork
timeliness
tolerance
tradition
tranquility
trust
truth
unity
variety
will to succeed
wisdom

2. Now that you have identified ten, imagine that you are only permitted to have five values. Which five would you give up? List the **remaining five** here.

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

3. Now imagine that you are only permitted three. Which two would you give up? List the **remaining three** here.

   a. ______________________________

   b. ______________________________

   c. ______________________________

4. Now eliminate two more to bring your list down to **one**. What is the one value on the list that you care most about?

   a. ______________________________

5. Now prioritize top five values.

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

6. Make a master list of everyone's top five values and include a discussion at the next transition planning meeting.

7. Additionally, distill the master list of everyone's values down into a summary list of the top five values for the farm and family.

Family Values

For each value statement pair, think of your extended family, and circle on the scale which one of the statement pairs is more descriptive of the family's values and beliefs (the overall family culture)?

Freedom is defined by rules.	4	3	2	1	0	1	2	3	4	Freedom is defined by personal choice.
An overall leader is essential.	4	3	2	1	0	1	2	3	4	Groups can provide their own leadership.
Trust others with great caution.	4	3	2	1	0	1	2	3	4	Trust others until they prove unworthy.
Security more valued than adventure.	4	3	2	1	0	1	2	3	4	Adventure more valued than security.
Experience is more valued than creativity.	4	3	2	1	0	1	2	3	4	Creativity is more valued than experience.
Hard work is the key to success.	4	3	2	1	0	1	2	3	4	Planning is the key to success.

Family First / Business First

Make either a family first or business first selection by placing an X in the appropriate column for each category.

Category	X	Family First	X	Business First
Membership		There is a place for all family members.		If you're qualified to do the job, you can join.
Income (compensation)		Family members are paid more (or less) than the going rate for the job — sometimes based on need.		Pay is determined by responsibilities and performance.
Leadership or promotion		Leadership is bestowed. Title / office is bestowed by birthright.		Leadership is earned. Company officers control day-to-day operations.
Basis of operation		Business resources are used for family perks.		Strategic resources are used for business purposes (to grow and enhance the business).
Training		Outside experience may be less valuable than years of service in the family business.		Outside experience is more important than years of service in the family business.

Retiring Generation

Personal and Lifestyle:

1. What do you envision yourselves doing in retirement?
2. How much income will you need to live this way?
3. Do you have (or plan to have) retirement income sources other than the farm? If so, what percentage will come from the farm?
4. Have you thought about inflation pressures on costs of living and how this might impact on your retirement needs?
5. Are you planning to purchase any big ticket items in the five years post retirement? (house, cottage, extensive travel)
6. Do you wish to create a legacy as part of your transition?
7. Have you thought about yourself first?

Successor:

1. Who is taking over the family business?
2. Will he/she/they need additional training to do so and if so, what type(s)?

Communication:

1. Have you spoken with the successor(s) regarding the transfer of the farm?
    a. If yes, what has been specifically discussed?
    b. If yes, have the discussions been formal (ex: with notes recorded)?
2. Have you spoken to any other advisors regarding the transfer of the farm?
    a. If yes, what has been specifically discussed?
3. Do you have regular business or family meetings about business in general?
    a. Specifically about transition?
4. Have you spoken to your non-farming children regarding the transfer of the farm?
    a. Is it important that all family members be given the opportunity to talk about their own expectations, goals and objectives — both personal and for the farm?
5. Are you worried about the potential for conflict?

Estate:

1. What does your current will say?
2. Does it accurately reflect your thoughts on transition?
3. Have you appointed powers of attorney?
4. Are you considering using (or do you have in place) life insurance as a vehicle to assist with transition?
5. Are you considering passing some of your estate to grandchildren?
6. Are you concerned about being fair and equitable?

Ownership, Labour and Management:

1. Who will own the farm assets post transition?
2. Who will be working on the farm?
    a. Specifically, what role(s) will you have?
3. Who will be the manager of the farm?
4. What are the expectations for involvement from the rest of the family?
5. Are considerations required for non-family involvement — either in management or ownership?

Farm Financial:

1. Does the farm have a current business plan?
2. Do you know if the farm can financially support everyone's needs or wants including family living costs for the next farming generation?
3. How will the transition be financed?
4. Do you know what tax implications are related to your transition?

Timeline:

1. When will you retire?
2. When do you want your transition plan to be completed?
3. When will the actual farm transition begin (implementation of your transition plan)?
    a. When will the transition be completed?

Succeeding Generation

Personal and Lifestyle:

1. What do you envision yourself doing during your working years?
2. How much income will you need to live this way?
a. If your future is farming, will your income decrease or stay the same?
3. Are you planning to purchase any big ticket personal items as part of or immediately following farm transition (house, cottage, other family recreation items)?
4. Are you worried about Mom and Dad not adequately looking after their interests?

Communication:

1. Have you spoken with the retiring generation regarding the transfer of the farm?
    a. If yes, what has been specifically discussed?
    b. If yes, have the discussions been formal (ex: with notes recorded)?
    c. Have you been identified as the successor to the farm business?
2. Have you spoken to any other advisors regarding the transfer of the farm?
    a. If yes, what has been specifically discussed?
3. Have you spoken with your future business partner (spouse, brother etc.) regarding the transfer of the farm?
4. Do you have regular business or family meetings?
    a. About business in general?
    b. Specifically about transition?
5. Have you spoken to your non-farming siblings regarding the transfer of the farm?
6. Do you think it is important that all family members be given the opportunity to talk about their own expectations, goals and objectives — both personal and for the farm?
    a. Have you been given this opportunity?
7. Are you worried about the potential for conflict?

Education/Training:

1. Have you taken any management development training?
    a. If so, describe?
2. Have you taken/attended any other courses/workshops (university degree, college diploma, seminar etc.)

Estate:

1. Do you have a current will?
    a. If yes, what does it say?

Ownership, Labour and Management:

1. Who will own the farm assets post transition?
2. Who will be working on the farm?
    a. Specifically, if actively involved, what role(s) will you have?
3. Who will be the manager of the farm?
4. What are the expectations for involvement from the rest of the family?
5. Are considerations required for non-family involvement – either in management or ownership?

Financial:

1. Does the farm have a current business plan?
2. Do you know if the farm can financially support everyone's needs or wants?
3. Does this include additional family living costs for the next farming generation?
4. How will the transition be financed?

Timeline:

1. When will the farm transition begin (implementation of the transition plan)?
2. When will it be completed?
3. When will your parents retire?
4. Will the transition be gradual or all at once?

Financial Performance Ratios Explanation

Current Ratio

Definition:

The current ratio is calculated by dividing the current assets by the current liabilities and is a measure of liquidity.

The current ratio provides an indication of the liquid assets available to meet the next twelve months of financial commitments (the current liabilities). Working capital and the current ratio reveal strengths and weaknesses in liquidity (the ability of a farm to generate cash flow to meet obligations).

A higher number indicates better performance.

Financial Performance Thresholds:

>2.0:1	The optimum current ratio is a ratio of 2:1, or better, which indicates that the farm would have two dollars of current assets for every one dollar of current liabilities. Results in this threshold indicate strong liquidity. As results in this threshold approach or exceed 4.0:1, performance can become less positive as it could be an indication of idle cash.
>1.5:1	A current ratio of 1.5:1 and greater is considered to be a strong current ratio. A current ratio of 1.2:1 – 1.5:1 is considered to be marginal. Current ratios can change significantly with each production year. Liquidity can erode quickly on a farm, but results in this threshold indicate adequate or manageable liquidity.
<1.1:1	A weak or negative current ratio generally results in cash flow problems, presenting as inability to pay bills as they come due or make scheduled debt payments. Poor liquidity adversely impacts on management decision making. Results in this threshold should be reviewed to see if restructuring the debt would be an appropriate option.

Working Capital

Definition:

Working capital is calculated by subtracting the current liabilities from the current assets. The result is the surplus or deficiency of current assets available to meet the current liability obligations of the business over the upcoming year.

When analyzing liquidity, it is important to calculate and analyze the amount of available working capital. The current ratio may indicate a ratio of 1.5:1, yet working capital may not be adequate because the quantified values of current assets and current liabilities may be relatively small. In other words, a farm with a 1.5:1 current ratio may have actual working capital of $20,000 or $200,000.

Working capital provides an indication of liquidity in terms of dollars, not just a ratio. This is a valuable measure, but further analysis is required. Working capital expressed as a percentage of expenses quantifies the indicator as it relates to the size of the operation (ex: a larger operation requires more working capital).

Working capital as a percentage of expenses is calculated by dividing the available working capital by the year's cash expenses (expenses not including amortization or depreciation). A higher percentage indicates better performance.

Financial Performance Thresholds:

>50%	A 50 per cent result means that the farm has half of the funds required to operate the farm for the next year. Any value less than 100 per cent means that the farmer will have to source additional working capital. Results in this threshold generally indicate that the working capital requirements for the next year will not be a problem. Typical sources of additional working capital in this threshold include operating loans and inventory advances.
25%	As results near this threshold or fall below, there will be increasing challenges in securing the working capital required to manage cash flow for the farm. Typical sources of working capital in this threshold still include operating loans and inventory advances but will also result in pre-selling more of next year's inventory. However, there will likely be a need to increase operating loan limits and where this is not an option, managing accounts payable becomes a reality.
<10%	Results in this threshold indicate inadequate working capital, increasing cash flow challenges and related stress. Management decisions are negatively affected (meaning farmers will be forced to do things they wouldn't ordinarily want to do). Operating loans and inventory advances are generally not a satisfactory option resulting in overdue accounts payable, credit card balances, deferred principal payments (or payments not made) and pre-selling next year's inventory.

Debt Structure Ratio

Definition:

The debt structure ratio is a liquidity measure and is calculated by dividing the current debt (liabilities) by the total liabilities. The purpose of this ratio is to determine what percentage of the farm's total debt is current, or due, in the next 12 months.

Shareholder loans (for incorporated farms), related party transactions and future tax may be factored out of the calculation to get a better picture of the real debt structure position. Sometimes (imminent transition for example) these items have a defined repayment structure and therefore would be left in the calculation.

A lower percentage generally indicates better performance.

Financial Performance Thresholds:

<20%	An optimally structured balance sheet (given a farm that has an appropriate level of total debt) would reveal a debt structure ratio of 20 per cent, or less, meaning that the farm is committed to repaying 20 per cent of its total debt in the next 12 months. Liquidity will generally not be adversely affected due to current liability commitments.
25%	Results in this threshold are often acceptable, if liabilities are not too large. If cash flow (liquidity) is a challenge, management should determine if the debt structure can be adjusted to reduce the current commitment to repaying liabilities and therefore, improving cash flow available for operations.
>30%	Farms with a high debt structure ratio often experience cash flow problems, unless there is little or no long term debt. Liquidity challenges can be a function of insufficient current assets (see working capital and current ratio) or current liabilities that are too large; often associated with an aggressive debt repayment commitment.

Equity Ratio

Definition:

The equity ratio is calculated by dividing market value equity by total assets.

Equity represents the total assets actually owned (by shareholders in the case of a corporate farm). Typically, a statement reporting assets valued at estimated market values more accurately represents the owner's or shareholder's net worth, where asset values would be valued considerably higher than at cost.

In corporate farms, productive assets (usually land and quota) can be held outside the company and therefore are not included in the financial statement equity. An adjustment to include such assets can be made to the analysis of the statements so as to provide a more complete understanding of financial performance.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>70%	A farm with an equity position, as presented in a consolidated statement of net worth, of 70 per cent and greater, can be classified as having a strong equity position. Farms in this threshold typically (but not always) have manageable liability commitments. They have financial strength to draw upon if they encounter a production crisis that requires a working capital infusion or if they encounter an opportunity that requires financing and additional security.
50-70%	Farms with results in this threshold generally can be categorized as being in a comfortable equity position. As results trend toward the lower spectrum (50 per cent), farms become more sensitive to liquidity (cash flow) challenges resulting from production shortfalls or management decisions that result in additional debt commitments.

<50%	Threshold results below 50 per cent will be categorized as being marginal in terms of a farm's equity position. As equity in a farming operation decreases, risk increases. There will usually be corresponding challenges in liquidity. Management decisions will be negatively affected. There is, in practical reality, no available security to offer for any restructuring or to secure financing for new investments. The margin for error (expressed financially) for farms with results in this threshold is very narrow.

Debt to Equity Ratio

Definition:

The leverage ratio is calculated by dividing total liabilities by the equity in the business.

This ratio indicates the relationship between the use of debt and equity to finance the farm business and is a measure of longer term risk. Because payments to the debt holders (lenders) are normally more fixed than payments to the equity holders (the farmer), a higher leverage ratio indicates a higher fixed commitment (less flexibility), and therefore, higher risk. The leverage ratio can be calculated reporting assets at original cost (less applicable depreciation) or at market value (values derived from a statement of net worth). For purposes of this analysis, market value (net worth) of assets is assumed.

As the leverage ratio increases, risk increases. A lower percentage indicates better performance.

Financial Performance Thresholds:

<0.4:1	A leverage ratio of 0.4:1 (four hundred dollars of debt for every thousand dollars of equity) and less derived from a net worth statement is considered to be a strong leverage ratio. Less debt as a percentage of equity correlates with less risk.
0.65:1	As results approach this threshold, there is an increasing amount of debt compared to equity. Leverage is increasing but the farm will generally not be affected adversely by the amount of debt it is carrying. However, as results deteriorate past this threshold, the effect of carrying the additional debt will start to become an issue. In any situation where an investment is going to include a significant increase in financing (leverage), farmers should calculate before and after leverage ratios; which quantifies financial risk in the transaction. **This is a very important exercise when results are in this threshold because there is very little room for financial error.**
>1:1	Results in this threshold indicate a highly leveraged farm and indicate that creditors and lenders have more at stake in the business than the farmer. Greater financial risk results in increased costs of capital (higher interest rates and administration fees), increased scrutiny on the file, financial statement preparation requirements and difficulty (or impossibility) in securing additional financing.

Debt Servicing Ratio

Definition:

The debt servicing ratio is calculated by dividing debt servicing capacity by annual principal and interest payment commitments.

The debt servicing ratio indicates the earned ability of the operation to service, or repay, its debt by making scheduled principal and interest payments.

The length of the term (years of payments) of the loan is important. The longer the term of the loan, the greater the chance for fluctuations in farm earnings over the term and therefore, the greater the risk as the debt servicing ratio weakens.

Debt servicing capacity is calculated by adding amortization (non-cash cost) and long term interest expense to net income. For unincorporated farms where management salaries are not a deductible expense, living costs should be subtracted from the total, as should any known income tax payment amounts.

Financial Performance Thresholds:

>2.0:1	A result in this threshold indicates that for every dollar of debt (principal and interest) payments, the farm expects to have two dollars available. Results in this threshold indicate very strong performance. **All farms should calculate before and after scenarios for debt servicing ratios for new loans.** The exercise helps to quantify longer term risk in the transaction.
1.5:1	For grain or livestock operations, a 1.5:1 ratio and better is generally adequate. The ideal ratio may vary depending on the type of operation. For example, for a dairy farm, which has relatively strong price and cash flow certainty, a 1.25:1 ratio can be comfortable. Caution should be exercised where financing a purchase results in debt servicing ratios that begin to approach 1.2:1. In this situation, the length of the term of the loan should be very carefully considered (see comments above). Note that the debt servicing ratio is very sensitive and directly tied to earnings. Decreasing net income decreases the debt servicing ratio. Past trend line performance is important.
<1.1:1	Farms with results in this threshold will have difficulty generating the earned income required to make principal and interest payments. Farms may not be able to make payments as scheduled or, if they do, will do so by weakening liquidity indicators (increasing operating loans or selling additional inventory). Transactions that require additional financing and that cause the ratio to fall into this threshold will be very difficult to finance and should be pursued very carefully — **especially** if the equity ratio is weak.

Return on Assets Ratio

Definition:

Return on assets is calculated by dividing net income plus long term interest expense by total assets.

There are two options for the calculation. Using assets valued at original cost (less accumulated amortization where applicable) and using assets valued at fair market value. The latter values are generally greater.

Incorporated farms will have financial statements with assets valued at cost. These farms will very likely own assets (land) personally. An adjustment should be made to include personally held assets (farm business related) such as land.

For purposes of this analysis, financial performance thresholds are based on net worth (market value of land and quota assets, with equipment values not included in the adjustment).

An adjustment should also be made to account for unpaid (or extraordinarily excessive) family wages or management salaries.

This ratio is a measure of the return on investment made in the business and includes a return to capital appreciation. Year over year changes in results of this indicator tend to be smaller due to the large investment in assets required to operate a farm.

A larger number indicates better performance.

Financial Performance Thresholds:

>6%	Results in this threshold over a longer term period generally represent good performance. It reports that if a farmer has $2 million in assets, he will have net income of $120,000. Farmers who are considering expanding their operation should determine if this performance is acceptable and if not, determine what can be done to improve performance or search for different investment opportunities.
2%	Farmers should always determine what portion of the return comes from operations and what portion comes from capital appreciation. However, farmers with results in this threshold should specifically analyze what percentage of the return came from capital appreciation. If the portion of the return due to land and quota is two per cent or greater, **no** return came from earnings attributed to business operations. If this is the situation, then the farmer **must** determine what can be done to generate a positive return from operations. Businesses that cannot generate a longer term positive return from operations will fail.
<0%	Farmers with longer term results in this threshold will be challenged financially. The likelihood of longer term survivability in the farm's existing form will be very poor. Farms with results in this threshold will, in almost all situations, be reporting net losses. Financial efficiency ratios (gross margin/contribution margin/net operating profit margin) should be analyzed to determine what can be done to improve earnings. It is important to note the number of years in the trend line. Farms with good debt to equity performance can usually manage through periods of low, or negative return on assets. This becomes more difficult as debt to equity performance deteriorates.

Return on Equity Ratio

Definition:

Return on equity is calculated by dividing net income by equity (or retained earnings).

There are two options for the calculation. Using assets valued at original cost (less accumulated amortization where applicable) and using assets valued at fair market value. The latter values are generally greater.

Incorporated farms will have financial statements with assets valued at cost. These farms will very likely own assets (land) personally. An adjustment should be made to include personally held assets (farm business related) such as land.

For purposes of this analysis, financial performance thresholds are based on net worth (market value of land and quota assets, with equipment values not included in the adjustment).

An adjustment should also be made to account for unpaid (or extraordinarily excessive) family wages or management salaries.

Return on equity (ROE) provides information on how efficiently the farm is using debt in its capital structure. Return on equity should exceed return on assets (ROA) for farms that borrow money (ROE equals ROA when there is no debt). If return on assets is greater, it indicates that the farm is not earning enough to pay its interest cost on borrowed money.

Year over year changes in results of this indicator tend to be smaller due to the large investment in assets required to operate a farm.

A larger number indicates better performance.

Financial Performance Thresholds:

>10%	Results in this threshold over a longer term period generally represent good performance. It reports that if a farmer has $2 million in market value equity, he will have net income of $200,000. Farmers who are considering investing in or expanding their operations should determine if this performance is acceptable and if not, determine what can be done to improve performance or search for different investment opportunities.
6%	Farmers should always determine what portion of the return comes from operations and what portion comes from capital appreciation. If the portion of the return due to land or quota appreciation is three per cent or greater, then three per cent came from earnings attributed to business operations. For many farmers, this level of performance (especially over a longer term trend line) is acceptable.
<2%	If the return on equity increase due to land or quota appreciation is two per cent or greater, **no** return came from earnings attributed to business operations. If this is the situation, then the farmer should determine what can be done to generate a positive return from operations.

Farms with results in this threshold will, in almost all situations, be reporting net operating losses (unless land or quota values decrease). Farmers with longer term results in this threshold will be challenged financially; firstly in liquidity management. The likelihood of longer term survivability in the farm's existing form will be very poor. Financial efficiency ratios (gross margin/contribution margin/net operating profit margin) should be analyzed to determine what can be done to improve earnings.

Asset Turnover Ratio

Definition:

Asset turnover is calculated by dividing gross revenue by total assets.

This ratio indicates the extent to which a business uses its assets to generate revenue. The higher the ratio, the better the assets are being used. The ratio can vary with business type and geographic location (example inflated land values).

For purposes of this analysis, assets are based on net worth (market value assets, but only land and supply managed quota as equipment has not been adjusted for market value).

Note that profitability ratios (return on equity and return on assets) indicate performance as a function of net income. Asset turnover uses gross revenue as the function of profitability. Neither is right or wrong; they just provide a different context on financial performance.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>40%	Results in this threshold indicate that for every $1,000 in assets there should be $400 generated in gross income. Farms achieving this level of performance are very efficient in how they use their assets to generate gross revenue.
20%	Farms with results in this range will be reporting very typical performance. A larger investment in assets, especially land and newer equipment generally makes it more difficult to achieve optimal performance in this ratio. Poorer performance in this ratio can be attributed to excess investment in capital, new or overcapitalization in equipment or less than optimum gross revenue generation. Lower gross revenue, coupled with increased interest costs due to financed asset purchases or additional amortization on new equipment, can all work to reduce net income.
<10%	Results in this threshold indicate a farm that is not efficiently generating a return (as expressed by gross revenue) on its assets. The options to be analyzed are: increasing gross revenue (yield or price) or decreasing investment in assets. The decrease in assets can be accomplished in the shorter term by disposing of assets (lease options) or in the longer term by not replacing equipment as frequently (lower value).

Note that the first step to take if asset turnover performance falls into poorer performance thresholds is to determine what the root cause is. If it is because land in the area is really overvalued, then less emphasis should be placed on this indicator.

Gross Margin Ratio

Definition:

Gross margin is calculated by subtracting seed and seed treatment, chemicals (herbicides, fungicides, pesticides), fertilizer and production insurance (for grain operations) and veterinary, medicines, feed and market animals (for livestock operations) from gross revenue and then dividing the number by gross revenue.

This ratio measures the financial efficiency of a farm in terms of how it uses its production inputs.

Gross margin trend lines provide an excellent indication of efficiency to monitor as farms grow in size or complexity.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>65%	Results in this threshold indicate that the farm is very efficient at utilizing its production inputs. Gross margin ratio is one of the most important indicators to calculate and analyze. Farmers with longer term trend lines at this level of performance can confidently proceed with expansion plans.
55%	Farms reporting results in this threshold should determine why performance is less than desired and what can be done to improve it. The reasons for poor performance fall into the production (yield and inputs) and marketing (price) management areas. The reasons can also be outside a farmer's control (weather for example). The latter is a major reason why trend line performance should be analyzed. Uncontrolled events are **usually** not sustained over a longer period of time. Deteriorating gross margin performance often accompanies expansion and transition. With expansion, farmers may not be able to attend to the same operational detail and production suffers as a result. Farms with these results should proceed with any expansion plans very carefully.
<50%	It is critically important that farms reporting results in this threshold determine why performance is less than desired. Farms that are not able to generate gross margin performance will not achieve acceptable levels of net operating performance. Further, they will in almost all situations, report net losses.

Contribution Margin Ratio

Definition:

Contribution margin is calculated by subtracting operating expenses (fuel, repairs, custom work, direct labour, supplies) from the gross margin. The ratio is calculated by then dividing the margin by gross revenue.

This ratio measures the financial efficiency of a farm in terms of how it uses its operating cost inputs.

After efficiency over production expenses have been quantified (gross margin), a farmer can determine how efficient he is at using the other variable costs. The contribution margin ratio provides this determination.

Adjustments should be made to account for unpaid (or extraordinarily excessive) wages (family).

A higher percentage indicates better performance.

Financial Performance Thresholds:

>50%	Results in this threshold indicate that the farm is very efficient at using its variable operating inputs.
45%	Importantly, poor results at gross margin performance will usually translate into poor performance at the contribution margin. Farms reporting results in this threshold, when gross margin performance is acceptable, should determine why performance is less than desired and what can be done to improve it. Differing from gross margin performance, the reasons for poor performance **do not** fall into the production (yield and inputs) and marketing (price) management areas, and are within a farmer's management control.
<40%	Assuming acceptable gross margin performance, results in this threshold require management attention as poor performance will usually translate into less than desired net operating profit margins.

Net Operating Profit Margin Ratio

Definition:

Net operating profit margin is calculated by subtracting overhead and administrative costs (fixed) from the contribution margin. The ratio is calculated by then dividing the margin by gross revenue.

This indicator examines how efficient a farmer is at using his investment in fixed costs.

Adjustments should be made to account for unpaid (or extraordinarily excessive) wages (family) or management salaries.

Amortization (depreciation) rates can have significant impact on performance. They should be calculated based on management rates (not tax rates) and applied on a straight line basis.

This indicator compares very well to non-farm businesses.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>20%	Results in this threshold indicate a very efficient farm in terms of generating net profit from its core operations.
10%	Farmers with results in this threshold have room for improvement. Remember that the denominator is gross revenue. This means that if a farm's net operating profit margin is $100,000 and its gross revenue is $1 million, then its net operating profit margin ratio is 10 per cent. Performance should be 20 per cent or $200,000 which means that there is $100,000 on the table. This is money that the farm in question could use for investment and growth, to repay debt or for personal needs. This is money that other farms with better performance have, which gives them a degree of competitive advantage.
<5%	Farmers with results in this threshold should determine what can be done to improve performance. Importantly, in situations where gross margin and contribution margin performance are in acceptable thresholds, an option is to consider expanding the productive asset base, effectively spreading fixed costs over more productive units. This will improve net operating profit margin performance, providing that the expanded production base does not result in poorer gross margin performance or require additional fixed costs such as interest on term debt or amortization. Trend line performance in the threshold will translate into liquidity and solvency issues and will negatively affect management decisions.

Interest Expense Ratio

Definition:

The interest expense ratio is calculated by dividing interest expense by gross revenue.

Farms with more debt will have higher interest expense ratios.

The ratio is a good indicator of potential problems related to leverage (debt).

A lower number may indicate better performance. However, if a farm can effectively manage the risk associated with leverage (debt) — which includes interest — then it is more important to analyze the return that is generated by using borrowed capital and managing its repayment.

Financial Performance Thresholds:

<10%	Farms with results in this threshold are generally not being adversely affected by interest costs. Calculating before and after scenarios where additional loans are being planned helps to quantify how interest will affect financial performance.
15%	As in most ratios, farms with results in this threshold should monitor trend line performance for deteriorating performance. Obviously, as this ratio weakens, more and more of the revenue generated (gross revenue) goes to pay interest and is diverted from other areas.
>20%	Results in this threshold warrant management attention. If the ratio is 20 per cent, then $200 out of every $1,000 of gross revenue goes just to pay interest. There will very likely be increased sensitivity to interest rate increases.

Amortization Expense Ratio

Definition:

The amortization expense ratio is calculated by dividing amortization expense by gross revenue.

The ratio measures the amount of amortization (depreciation) relative to the level of sales (gross revenue).

A farm with newer equipment assets will have a higher amortization expense ratio. This indicates management priorities and investment guidelines.

The amortization expense ratio trend line is important to monitor. A downward trend may indicate capital replacement may be lagging while an upward trend might indicate an aggressive capital replacement policy. There is direct correlation between the amortization expense ratio and return on assets and return on equity as greater amortization expense (higher amortization expense ratio) will result in lower net income.

A lower number may indicate better performance.

Financial Performance Thresholds:

<10%	Farms with results in this threshold are generally not being adversely affected amortization costs. However, it may also reveal other issues. A lower number can reveal aging equipment that usually results in increased operating costs (repairs and maintenance). Aging equipment can result in production down time that can have negative impacts on yield, gross revenue and therefore, ultimately, net income.
15%	As in most ratios, farms with results in this threshold should monitor the trend line for deteriorating performance. As this ratio weakens, more and more of the revenue generated (gross revenue) goes to pay amortization costs. Net operating profit will be reduced. However, amortization is not a cash cost. Therefore, while net operating profit (profitability) may be reduced, cash flow (liquidity) may not be significantly affected.
>20%	Farms with results in this threshold should look for poor performance linkages in return on assets and equity ratios, debt to equity ratio, net operating profit margin ratio and asset turnover ratio to help determine the extent of the impact of amortization costs on financial performance.

Personalities

Personality Style	PERSONALITIES - Check which best reflects your Style beloe
'D' - Dominant	
'i' – Influence	
'S' – Steady	
'C' - Conscientious	

Historical Business Development

The chart below is broken into year, situation, outcome and significance.

1. Year: Enter the year that the significant event occurred.
2. Situation: Briefly describe the relevant detail regarding the significant event.
3. Outcome: Describe what decisions were made and the shorter term result of these decisions.
4. Significance: Describe how this particular event shaped the future of the farm or family and is part of who and what the farm or family is today.

YEAR:.
SITUATION:
OUTCOME:
SIGNIFICANCE

YEAR:.
SITUATION:
OUTCOME:
SIGNIFICANCE

YEAR:.
SITUATION:
OUTCOME:
SIGNIFICANCE

Readiness Assessment Review Meeting

Date:

Time:

In attendance:

1. **Administration:**
    1. meeting chair and function
    2. notes recorder
    3. decorum (optional)
2. **Review previous meeting notes**
3. **Purpose of the meeting:**
    1. review the farm's readiness for transition planning
    2. make a decision whether to proceed or not
    3. address other concerns as needed
4. **Where things are at:**
    1. personal, family and farm
    2. general discussion and questions
5. **Transition Planning specifics:**
    1. discussion and decision on whether to proceed with transition planning process:
        1. Use go/no-go decision and statement of intent exercises.
    2. Will the management team use an advisor/consultant during the process?
        1. If so, who?
        2. How will the communication processes be structured in regards to transition planning?
    3. General discussion and questions
6. **Concerns and issues:**
    1. general discussion and questions
7. **Timelines:**
    1. Assign responsibilities with due dates.
    2. Set next meeting time.
8. **Adjourn**

Go/No Go Decision

Goals

Do we have similar goals for the future of the farm? Do our personal and family goals complement this future? Are our goals in line with transition planning?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Values

Do we have similar values about how a family business should be operated? Do our personal values complement each other's? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Management

Will management skills as identified through the Gaining Ground Agribusiness Assessment enhance or hinder our ability to develop a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Personalities/Behaviours Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Historical Business Development

Are there events in our farm's history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Statement of Intent to Proceed

STATEMENT OF INTENT TO PROCEED

________________ of ________________ intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership. ________________ intends to have the plan completed and ready for implementation by ________________.

Name	Signature	Date:

Statement of Intent to Defer

STATEMENT OF INTENT TO DEFER

Because ____________________ the members of ____________________ are unable to proceed with developing a transition plan for the purpose of transferring farm management and ownership to ____________________. ____________________ intends to re-address this issue on ____________________.

Name	Signature	Date:

Challenges in Transition Planning

Challenge	Applicable/Not Applicable	Reviewed or Dealt With	Outstanding Issue Resolved	Follow-up Required	By Who? When?
1. Lack of Awareness					
2. Getting started					
3. Planning drift					
4. Avoidance/Denial					
5. Commitment					
6. Accountability					
7. Selfishness vs. Selflessness					
8. Estate plan gaps					
9. Goals and values					
10. Fears					
11. Fair versus equal					
12. Active and non-active children					
13. Entitlement					
14. Successor Training & Skill Set					
15. Compensation					
16. Communication					
17 Management					
18. Tax planning					
19. Risk					
20. Process facilitation					

Guiding Principles

Major Concerns

Name:		Very Concerned			Somewhat Concerned			Not at all Concerned			
Date:		10	9	8	7	6	5	4	3	2	1
1	Disagreement about how to run the business among family members working in the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Survival of our farm or ranch, long term	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Disagreement among owners and partners about the real purpose of the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Fair treatment of heirs in ownership transfer	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Not enough financial reinvestment in the operation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Lack of a future for family farming/ranching	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
7	Unwillingness of current owner-manager(s) to retire	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
8	Inability of current owner-manager(s) to retire	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
9	Negative influence of in-laws on family harmony and business decision-making	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
10	Inability to pay estate taxes in the future	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
11	Lack of competence of successors	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
12	Lack of commitments of successors	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
13	Poor communication among family	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
14	Negative influence of off-farm owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
15	Negative effects of day-to-day stress caused by the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Planning Objectives

Name:		Very Concerned			Somewhat Concerned			Not at all Concerned			
Date:		10	9	8	7	6	5	4	3	2	1
1	Improve the effectiveness of our management team	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
2	Improve communication among family members	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
3	Use current advisors better	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
4	Minimize estate taxes	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
5	Transfer ownership fairly to the next generation	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
6	Develop a specific retirement plan for current owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
7	Develop a way of funding the retirement of current owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
8	Develop an agreement among all owners on investment, risk, and return standards	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
9	Define clear operating responsibilities for each manager	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
10	Define a fair method of compensating family members employed in the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
11	Increase personal cash flow to owners	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
12	Grow the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
13	Diversify the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
14	Define or revise an effective buy/sell agreement	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐
15	Define how the next generation of family members will enter the business	☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Strategic Objectives

Name:

Date:

	Important			Important			Important			
	4	3	2	1	0	1	2	3	4	
Own operation assets when possible	☐	☐	☐	☐	☐	☐	☐	☐	☐	Lease/rent operating assets when possible
Focus on current crop/ livestock mix	☐	☐	☐	☐	☐	☐	☐	☐	☐	Diversify beyond current crop/livestock mix
Maintain marketing independence	☐	☐	☐	☐	☐	☐	☐	☐	☐	Produce under contract
Focus on agriculture	☐	☐	☐	☐	☐	☐	☐	☐	☐	Diversify outside of agriculture
Position for long-term family ownership	☐	☐	☐	☐	☐	☐	☐	☐	☐	Position business for sale to outsiders
All owners share in all ventures equally	☐	☐	☐	☐	☐	☐	☐	☐	☐	Different owners own ventures differently
Employ owned land for farming purposes only	☐	☐	☐	☐	☐	☐	☐	☐	☐	Employ owned land for highest and best use

Conflict Management

Sources of Conflict

Authority, control, power:

The struggle for power can affect every situation and decision related to the farm operation. Farm families generally prize the value of independence and freedom to operate their own enterprise, yet many times, children are controlled well into adulthood by the parents.

Division of income:

The question of when the younger generation gets a greater share of the farm income is a chronic point of disagreement.

Obligations and indebtedness:

Who bears the brunt of risks in the business? Does someone feel taken advantage of? Is there someone who is not carrying their weight, yet getting paid as if they are (or vice versa)?

In-law relations and conflict of loyalties:

Many times the in-laws are never quite included in the family circle. Family loyalties get tangled when conflict occurs.

Differences in risk taking:

Each person has their own set of values and goals that affect how and when they spend money and how they make decisions. If differences are not tolerated, conflict can arise.

Decision making:

The need for crucial and frequent decisions to be made, often with little time to gather all the facts, contributes to conflicts. Who makes most of the decisions? Who is blamed if decisions turn out to be poor ones?

Legal transfer of the property:

Of course, the transfer of property from one generation to the next is another issue that can create tension and conflict. Some members may believe that legal agreements are all that are needed to solve the problem. Other family members may feel that more communication, mutual understanding and tolerance are needed to fully deal with the issues.

Conflict Management Styles

The ability to cope successfully with conflict is an important skill for all family members to have. There is no perfect way to handle all conflicts and there are several methods or styles that work well. Which one is appropriate or successful will depend on the situation and the people involved.

Kenneth Thomas and Ralph Kilmann developed a conflict management framework. It includes five styles for handling conflict.

The five styles are described as follows:

Avoidance:

You do not pursue your own concerns or the others' concerns. This usually results in a lose-lose situation.

Accommodation:

You have a high concern for others' needs and neglect your own concerns in order to satisfy their needs. Here you lose; the other person wins. This is a lose-win solution.

Competition:

You are concerned only with your own interests and pursue them at the expense of others. Here you win but the other person loses. This is a win-lose situation.

Compromise:

You are equally concerned with your needs and others' needs. Compromise never fully takes care of anyone's needs. This is a no win-no lose solution.

Collaboration:

You have high concern for both your needs and others' needs. Using this style, you work with the other person or people to find a solution, which is acceptable to all. This is a win-win solution.

No single style is necessarily better than the others given particular circumstances. However, collaboration and, to a lesser extent, compromise are considered to be the most constructive methods of conflict resolution.

Strategies to Find Win-Win Solutions

Specific strategies can be used to help arrive at win-win solutions to conflicts. Try the following:

Establish shared goals:

To create a climate of collaboration, people need to focus on what they share in common. Two brothers arguing over specific production methods could start by agreeing that they both share the goal of increasing productivity.

Separate the people from the problem:

Focus on the problem to be solved, not on the personality traits of the people involved. Telling someone an idea is stupid is less damaging than telling them they are stupid.

Focus on interests, not positions:

Positions are demands the negotiator makes. Interests are what generate the positions. Interests are a person's needs, wants, fears and concerns. For example, a dispute may arise between two brothers about which one should work on the weekends. They each take the position that they want the weekend off. The underlying interest of one brother is that he wants the weekend off so he can watch his children play in hockey tournaments. For the other brother, the interest is that he has a new girlfriend who works out of town and the only time he can see her is on the weekend.

Invent options for mutual gains:

Be as creative as possible. Once everyone understands each other's interests, try brainstorming to come up with as many solutions as possible.

Use objective criteria:

If the people in a dispute can shift their thinking from what they want to what makes the most sense, the merits of each possible solution will be easier to judge.

Define success in terms of gains, not losses:

If you asked for a 10 per cent raise but got only six per cent, you could look at this as a six per cent increase or a 40 per cent shortfall. Your satisfaction with the outcome of any dispute will be influenced by the standards you use to judge it. The question to ask is whether the settlement constitutes an improvement over the starting point.

Always strive to achieve win-win solutions. Even when a win-win solution doesn't seem to exist, one can usually be found with determination to do so.

Resource Team Identification

Resource Area	Person / Firm	Contact Information	Comments
Accounting			
Tax			
Legal			
Agronomy			
Marketing			
Investment			
Insurance			
Farm Management			
Human Resources			

Advisor Information Report

Advisors

Area of Expertise / Profession	Name	Firm	Contact Information

Family Members Involved

Name	Relationship	Direct or Indirect Involvement	Contact Information

Transition Plan completion date

Date: ______________________________

Summary of Transition Plan to date

Other Relevant Information

Vision

What's important to you?

Where are you going?

What do you do?

Situational Analysis

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized

Opportunities	Opportunities Prioritized	Threats	Threats Prioritized

Risk Assessment

Getting started:

Below is a table listing specific risks and examples of these risks within the broader headings of operational business risk, strategic business risk, financial and market risk.

1. Complete the exercise as a group.
2. Under each risk category, read the list of risk examples and circle those that apply to your farm.
3. Add or describe risks that are specific to your farm (if any) in the space provided.
4. Use the scale descriptors from the tables above to decide the probability and impact of this risk category.
5. Refer back to your SWOT analysis and expand on your listed weaknesses and threats as applicable.
6. Score the category by multiplying your probability and impact rating.
7. Total the scores in each risk category.

Operational Business Risk

Risk Category	Description	Probability	Impact	Score
Technology	Ability/cost to adapt, obsolescence, rate of change, role of science and biotechnology			
	Your Farm			
Human	4 Ds: Death, divorce, disability, departure, management and ownership capacity, transition, performance and training			
	Your Farm			
Legal / regulatory	Regulation compliance and changes, third party liability, environmental damage/compliance, licensing and reporting			
	Your Farm			
Production	Weather, pests/disease, theft/fire, operational practices			
	Your Farm			
Relationships	Landlords, lenders, customers, suppliers, contracts			
	Your Farm			
Distribution systems and channels	Transportation, cost, dependence on distributors			
	Your Farm			

Strategic Business Risk

Risk Category	Description	Probability	Impact	Score
Strategic positioning and flexibility	Industry consolidation, resource allocation and planning, organizational adaptation			
	Your Farm			
Marketing, reputation and image	Company image and brand, product reliability			
	Your Farm			
Competitive conditions	Market share, pricing wars, Commodity based; price-taker, world markets			
	Your Farm			
Governmental trade and farm policy	Provincial government programs, international policies (COOL, US farm bill etc.), supply managed			
	Your Farm			
			TOTAL	

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and financial structure	Debt servicing capacity, leverage, liquidity, profitability			
	Your Farm			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets			
	Your Farm			
			TOTAL	

Market Risk

Risk Category	Description	Probability	Impact	Score
Input and output product prices	Price level volatility, input product availability, output premiums/ discounts			
	Your Farm			
Contract terms, delivery and payment	Delivery delay, buyer default, supply chain obstacles and change			
	Your Farm			
Market outlets and access	Number of markets, ease of access to markets, qualified supplier status, cost of market entry			
	Your Farm			
			TOTAL	

Critical Issues

Business Structure

Operations

Environmental Responsibility

Human Resources

Marketing

Financial Management

Final Prioritized List

Critical Issues Action Plans

Critical Issue:
Person with Primary Responsibility:
Statement that defines the Critical Issue (optional):

Action Items	How	Specifics		
		Resources	When	By Whom

Financial Targets

Liquidity - The ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Working capital Percentage of Total Cash Expenses	(Current assets – Current liabilities) / Cash Operating Expenses	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %	

Solvency **–** The financial ratios that measure the amount of business debt relative to the amount of owner's capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Leverage Ratio*	Total Liabilities / Total Equity	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	> 1 : 1	
Debt Servicing	(Net income + Amortization + Interest -Family Wages**) / (Annual Principal and Interest Paid)	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1: 1	

* Industry standards based on assets at market value.

** If not already included in expenses (ex: non-corporate farms).

Profitability **–** The extent to which a business is able to generate profit (income) from the use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Return on Assets*	Net Income / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	

* Industry standards based on assets at market value.

Financial Efficiency **–** The extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	
Net Profit Margin	Net Profit Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	

Transition Planning Meeting Agenda

Strategic Direction Review Meeting

Date:

Time:

In attendance:

1. **Administration:**
    a. meeting chair and function
    b. notes recorder
    c. decorum (optional)
2. **Review previous meeting notes.**
3. **Purpose of the meeting:**
    a. Review overall progress in transition plan since last meeting.
        i. Make a plan to catch up in areas that are lagging behind (if needed).
    b. Review the farm's progress specifically in the strategic direction phase of the transition plan.
    c. Address other concerns as needed.
4. **Where things are at:**
    a. personal, family and farm
    b. general discussion and questions
5. **Plan development specifics:**
    a. Are we on the same page when it comes to values, strategies, and risk tolerance?
    b. Will our action plan take us where we want and need to go?
    c. Make a plan to address disagreements (if needed).
    d. Conduct a general discussion and answer questions.
6. **Concerns and issues:**
    a. general discussion and questions
7. **Timelines:**
    a. Assign responsibilities with due dates.
    b. Set next meeting time.
8. **Adjourn**

Successor Assessment

Leadership	Score
creates and effectively communicates a clear vision	
recruits a team to achieve business and operational goals	
treats partners, employees, third party vendors and all other stakeholders as important team members	
recognizes the importance of complementary characteristics and builds a team with diverse sets of strengths, skills and abilities	
creates a positive, constructive, results-oriented working environment	
recognizes potential areas for conflict and proactively mitigates the negative impact.	
knows that a leader strives to create other leaders and creates opportunities for others to excel	
displays good business customs and sound ethics	
delegates with clear responsibility and accountability	
accepts criticism and uses failure as a learning opportunity	
TOTAL	

Management	Score
selects team members based on their respective skills and abilities	
performs all tasks, duties and responsibilities with an owner's determination	
is committed to continuing education, additional training and self-study	
demonstrates excellent financial management	
uses technology to increase efficiency, improve effectiveness and cut expenses	
demonstrates clarity, patience and commitment to employee training, operational safety and hazard avoidance	
delegates effectively, encouraging others to take on and accept responsibility	
effectively prioritizes and demonstrates good time management	
understands personal relationships and operational politics using good communication	
uses a technique of good planning, thorough analysis, goal setting, budgeting and record keeping	
TOTAL	

Ownership Options

Ownership

1. Are you looking for an interim arrangement at this stage, or are you considering a full sale?
    a. Are you prepared for a complete change from farmer to creditor (or, if a company is involved, to a passive investor)?
    b. Will one or more children want to become involved later?
    c. How important is it that you retain ownership of some of the assets?
    d. If there is an interim arrangement, how concerned are you that the farming child might not be satisfied with how the overall plan will ultimately unfold?
    e. Could you work with your child on a partnership basis?
        i. Do you communicate well together?
        ii. Could you treat your child as a business partner?
2. Are you concerned about the stability of your farming child's marriage?
    a. This can be a significant issue because if there is a marriage breakdown, an estranged in-law could acquire a larger share of your estate than your own non-farm children.
        i. Does your child's marriage seem strong?
        ii. Would you prefer not to transfer significant assets at this time?

Control

1. Is it important that you control the management of the farm for a period of time?
    a. Is it important that you have some degree of control while you still have a significant investment in the farm?
    b. Is it sufficient that you have some influence over major decisions such as the future purchase and sale of assets?
    c. Do you want to continue managing the farm?

Security

1. What importance do you place on security?
    a. Are you prepared to act as banker on a sale of assets or shares to your child or will you expect him or her to buy you out in whole or in part? If you do act as banker, will you want interest in the first few years of the agreement?
    b. Are you prepared to guarantee any bank indebtedness that your farming child might take on to buy you out?
    c. Do you want your name to remain on ownership titles until the child pays what is owed to you?

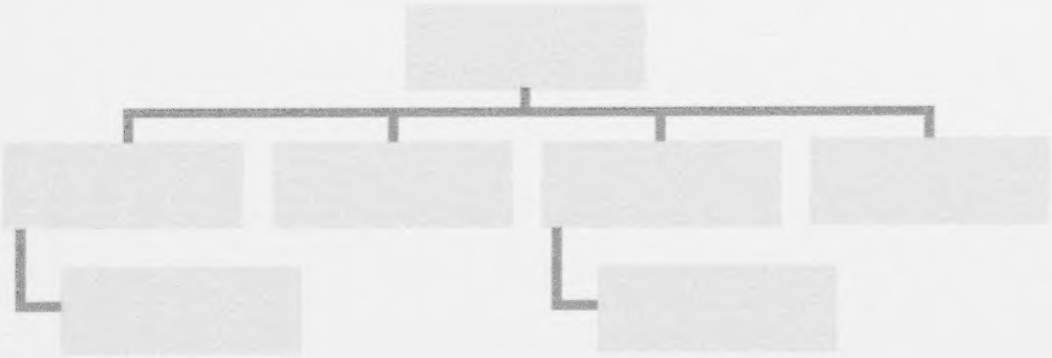
On-Farm Living

1. Will you want to stay on or move off the farm?
    a. Does your child need to move onto the farm?
    b. If an additional home is needed, will you or your child move into the new house?
    c. Can your home be sub-divided from the farm?
    d. What is the cost of housing in town?

Equal vs. Equitable Treatment of Children

1. What assets will ultimately pass to your non-farm children?
    a. Are there non-farm assets that they might inherit?
    b. Are there any insurance policies that they might inherit?
    c. Will you be able to build up non-farming assets from the payments that the farming child might make to you (that could at some point be passed on to your non-farm children)?
    d. Is it likely that the non-farming children will inherit a receivable from farming children or hold an interest in the farm?
    e. If so, how important is it that your farm child's ability to run the farm not be put at risk?

Management Structure



Management Activities

Management Area	Management Function	Sub-Function	Who manages it	Who does it	Who manages it	Who does it
			Currently		In 3 Years	

Job Description

Position Title:

Reports To:

Date:

Job Purpose/Objectives:

Percentage of Time	Key Tasks
	Activity 1:
	Activity 2:

Education and Training:

Experience and Skill Requirements:

Supervision:

Physical Requirements:

Salary Range:

Work Hours:

Overtime:

Benefits:

Comments:

Compensation

Compensation Philosophy

For Owners

For Family

For Family Employees

Roles, Responsibilities And Authority

Role or Responsibility	Responsible	Changes to Authority	Timeline	Action

Training and Skill Set Development

Activity 1:		
Hosting organization:		
Location (if applicable):		
Budget:		
Who Attends	**Dates**	**Follow-up**

Unanimous Shareholder Agreements

List of Agreement Considerations

Terms of Agreement: It is important that an agreement contain a clause on the length of time the agreement remains in place. Things to consider include: Should it be 10 years, should it be terminated upon the death of a shareholder or should it be perpetual? Because circumstances change, consideration should be given to the term of the agreement.

A. Provisions for Control

How many members will there be on the board of directors?

Will each shareholder be entitled to a nominee on the board?

What will be the quorum for a properly constituted meeting of the board?

Who will be the officers of the corporation?

Will the directors and officers be paid by the corporation? If so, how is their remuneration determined?

Which officers will be authorized to sign cheques and other banking documents on behalf of the corporation?

Will two signatures be required for cheques over a certain limit?

Who can bind the corporation in regard to other matters?

How will auditors, accountants and lawyers be decided?

How will meetings be called (mail, other, how many days in advance)?

Who will be notified of formal and informal meetings?

Who will vote at the meetings?

Will votes be decided by simple majority or special majority?

What circumstances will require a special majority?

B. Operation and Finance of the Corporation

If funds are required by the corporation, how are those funds to be obtained?

Will these funds be obtained by the corporation borrowing from a financial institution?

If the corporation is otherwise unable to obtain these funds, will the shareholders be required to provide guarantees?

If guarantees are provided, will they be limited guarantees and will guarantor liability be joint and several?

If the corporation is unable to obtain the required funds with the assistance of shareholder guarantees, will shareholders be required to provide loans to the corporation? Will shareholder loans be secured?

If shareholder loans are secured, under what conditions can a shareholder enforce his right to payment?

How will profits be distributed (salaries, bonuses, dividends, repayment of shareholder advances)?

Will shareholders be allowed to work for the corporation?

What are the powers of the shareholders regarding terminating another shareholder who is an employee of the corporation (ex: for causes such as failure to perform duties)?

C. Restriction on the Transfer of Shares

Will there be a restriction on the transfer of shares?

If so, will this restrict the ability of a shareholder to pledge shares to a bank or transfer shares to a family member or related corporation?

If the shareholders are corporations, should the shareholders be restricted from transferring shares of the shareholder?

D. Death of a Shareholder

In the event that a shareholder dies, should the estate be bound to sell the deceased's shares to the other shareholders, to the corporation for cancellation, or should the estate be allowed to keep the shares?

If an estate is required to sell and the corporation or remaining shareholders are required to purchase the shares, should there be insurance policies on the lives of the shareholders to ensure that the other shareholders of the corporation can afford to purchase the shares in the event of death?

If insurance policies are required, should the corporation pay the insurance premiums?

Upon death, how should the purchase price for the shares be paid (ex: a percentage at the time of the sale and the balance paid in equal consecutive monthly instalments over a period of years with or without interest)?

E. Events Requiring a Mandatory Sale by the Shareholder

Which events should result in a shareholder being required to sell all of the shareholder's shares of the corporation:

The death of the shareholder?

The disability of a shareholder, which results in the shareholder not being able to devote the time and attention required by the corporation?

The shareholder reaching a certain age (ex: 65 years)?

A default by the shareholder under the shareholder agreement or any related agreement?

The insolvency of a shareholder?

F. Disability of a Shareholder

If a shareholder is employed by the corporation, should the shareholder be entitled to continue receiving compensation in the event of a disability?

If so, for how long?

How should disability be defined?

Should a shareholder be required or have the option to sell shares if a disability continues for an extended period of time?

G. Right of First Refusal

If a shareholder is entitled to sell shares of the corporation to a third party, should that shareholder be required to offer the shares to the other shareholders on the same terms and conditions as the bona fide third party offer?

If the other shareholders do not wish to purchase the first shareholder's shares, should they be entitled to require the third party purchase their shares as well (piggy back rights)?

If the other shareholders do not wish to purchase the first shareholder's shares, should they be forced to sell their shares to the third party if the third party wishes to purchase all of the corporation's outstanding shares (drag along)?

H. Buy/Sell

This provision allows a shareholder to provide notice to all other shareholders advising them of a set price for purchase of all the other shareholder's shares or for sale of all owned shares to them. Once a shareholder triggers the buy/sell it is then up to the other shareholders to determine if they wish to be buyers or sellers.

I. Call

Should a shareholder be entitled to require one or more other shareholders to sell their shares in the corporation upon notice?

If so, should this right be exercisable immediately or only after some period of delay?

How will the price be determined?

How will the price be paid?

J. Put

Should a shareholder be required to purchase another shareholder's shares at the option of that other shareholder?

Should this right be exercisable immediately or only after some period of delay?

How will the price be determined?

How will the price be paid?

K. Pre-emptive Rights

If the corporation wishes to raise additional funds by issuing and selling new shares from treasury, should the existing shareholders have the first opportunity to purchase the new shares?

If any shareholders do not wish to purchase these new shares, should the remaining shareholders be entitled to purchase the additional shares, which may result in their holding a disproportionate number of shares?

L. Dispute Resolution

Shareholder agreements often contain a clause, which provides for arbitration in the event that a controversy or claim arises which cannot be settled. The agreement can also be drafted so that the parties must attend mediation prior to starting an action if a claim cannot be settled otherwise.

M. Non-Competition/Confidentiality/Non-Solicitation

Will the shareholders be required to promise that while they are shareholders they will:

- not compete with the corporation in any manner
- not solicit any of the corporation's clients
- promise to keep all confidential information they receive confidential

Should the terms of this clause be extended so that it applies even when the individual is no longer a shareholder? If so, how long should the non-competition/non-solicitation clause continue and what is to be the geographic scope of the covenant?

N. Valuation of Shares

How will the shares of the corporation be valued for sale purposes?

- by a predetermined formula
- by the shareholders themselves
- by endorsing a schedule to the agreement
- by a third-party valuator/auditor

Will the shares be valued annually?

O. Employment

- if one or more of the shareholders is employed by the corporation, should typical employment provisions be included in the shareholder agreement to protect the shareholder, the corporation, or both of them?
- should salary levels be agreed upon for some pre-determined period of time?
- should notice of termination of employment periods be agreed upon?
- should employment automatically terminate if a shareholder sells his shares?

Deal Breaker Issues

Challenges

Are there transition challenges outstanding that have not been dealt with?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team's ability to manage post implementation?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don't endanger the farm's future? Are all stakeholders committed to the goals and vision that have been established?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any significant negative feedback from professionals that cannot be incorporated into the plan?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict or feeling of resentment associated with the estate plan that needs to be addressed?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the next step? (Yes/No)

Are we ready to proceed to the next step (talking to professional advisors)? (YES/NO)

Transition Plan Review Meeting Agenda

Date:

Time:

In attendance:

1. **Administration:**
    a. meeting chair and function
    b. notes recorder
    c. decorum (optional)
2. **Review previous meeting notes.**
3. **Purpose of the meeting:**
    a. Review overall progress in the transition plan since last meeting.
        i. Make a plan to catch up in areas that are lagging behind (if needed).
    b. Address other concerns as needed.
4. **Where things are at:**
    a. personal, family and farm
    b. general discussion and questions
5. **Transition planning specifics:**
    a. Are we on the same page?
        i. Does everyone acknowledge that plans and documents will be considered final and signed?
        ii. Make a plan to address disagreements (if needed).
    b. Conduct general discussion and answer questions.
6. **Concerns and Issues:**
    a. general discussion and questions
7. **Timelines:**
    a. Assign responsibilities with due dates.
    b. Set next meeting time.
8. **Adjourn**

How to Choose and Work with an Advisor

A very important decision you will be face during your transition planning process is whether or not to use an advisor. Knowing what to look for in an advisor, and knowing how to get the most out of the relationship is very important.

The key aspects of the role of an advisor are:

- To be an information resource to the farm management team
- To guide the team in their decision making process – not simply tell them what to do.

If you decide to use an advisor, some important follow-up questions are:

- How do I choose the right advisor?
- How can I get the most out of the advisor-client relationship?
- How should the relationship be structured?

What to Look for when Selecting an Advisor

Qualifications

Consider the career and educational background of a potential advisor.

- Do they have a farm background?
    - Is it important that they do?
- What education and experience to they bring to the table?
- What kinds of professional development have they undertaken?
- Do they maintain a professional affiliation with any industry groups?
- Since there is limited regulation on who can act as a consultant or advisor, a good indication of a potential advisor's professionalism and training is whether they have a designation or other credentials from a regulating organization.
    - An appropriate question to keep in mind is, "If an advisor is not prepared to invest in their business and their professional development, why would you invest in them?"

Communication and Conflict Resolution Skills

Communication is a critically important part of The Transition Planning Process. An advisor will be expected to write and respond to emails, prepare documents and meeting agendas, and lead discussions at the meetings. A key factor in your relationship with your advisor will be how well he or she can effectively communicate in these areas.

Since there is a potential for conflict in Transition Planning, it is important that an advisor be experienced in Conflict Resolution. They may be called upon to maintain good behaviour in meetings, and bring differences of opinion to the middle ground.

Steps to Follow When Selecting an Advisor

There are many factors to consider when selecting someone. It is best to make your selection based on their talent and how relevant their talents are to your situation. Try not to be sold on simply experience, intelligence or determination.

1. Develop a detailed description of the objectives and requirements of the project
2. Identify the scope of the work
    a. Include key concerns, timelines and budget limitations
3. Research rosters or databases and take note of advisors that match your needs
    a. Contact each
    b. Ask for a resume and list of references
4. Rank each respondent
5. Shortlist and interview
    a. Look for advisors who recognize your needs and demonstrate sound knowledge
6. Do some research on the final candidates
    a. Word of mouth
    b. Check their Resumes
    c. Reference checks
        i. Was the work similar to the work you want done?
        ii. Were they satisfied with the work? If not, ask why?
            1. Be cautious about false expectations or a poor engagement understanding
            2. The issue(s) might not be the advisor's fault
7. Select the advisor
    a. Develop a written contract
    b. Ensure both parties sign the contract
8. Errors and omissions insurance
9. Third party liability insurance

How to Use an Advisor

The real fun (work) begins once you have selected an advisor to assist you in the Transition Planning process. The relationship you build with your advisor will go a long way in determining the success of your farm's Transition plan. While each relationship will differ depending on the situation and people involved, there are some universal guidelines and tips that can help make things go smoothly.

1. Formalize the client-advisor relationship. Knowing what is needed, what the deliverables are, and what expectations you have of the advisor will make this task much easier.
    a. Write an engagement letter, or have your advisor write one. This lays out the expectations from both sides and provides a reference if changes threaten to derail the process.
        i. Terms that should be included in the engagement letter:
            1. Project scope, objectives and understanding
            2. Services and delivery
                a. Leverage
            3. Limitations and liability
            4. Advisor responsibilities
            5. Client responsibilities
            6. Project assumptions
            7. Fees, expenses and payment terms
2. Formalize the fee structure. The engagement letter will include what both parties agreed to for fees. However, before agreeing to anything fee-related, there are several things to consider:
    a. What will be the basis for the charging of fees?
        i. By the hour
            1. You should feel comfortable asking your advisor for a breakdown of the time billed to you.
        ii. By the contract
        iii. Contingency based
        iv. Retainer based
        v. Other fees may be negotiable
        vi. Final payment holdback can be used to make sure work is completed as per the engagement letter

3. There are other important considerations to be aware of when working with an advisor. They cannot all be listed here, and some will unique to your situation. However, a carefully selected advisor should be professional in their approach to solving an unexpected problem.
    a. Disputes are often caused by a breakdown in communication.
        i. It is important to bring an issue to the table as soon as you detect a problem
        ii. Refer back to the contract (engagement letter)
        iii. Professional conduct and insurance can sometimes play a role in solving disputes.
        iv. There is a mutual responsibility for both parties to ensure information flows to each other
    b. Timelines and deliverables
        i. It is important to keep on track. An effective way to prevent conflict is for both the farm family and the advisor to work hard to meet timelines and agreed upon deliverables.

Transition Plan Final Meeting Agenda

Date:

Time:

In attendance:

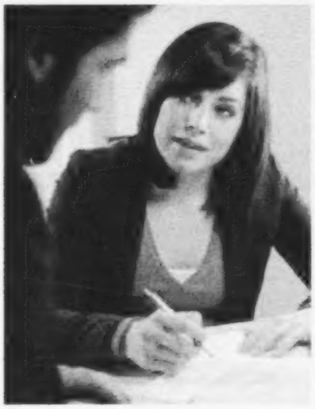
1. **Administration:**
    a. meeting chair and function
    b. notes recorder
    c. decorum (optional)
2. **Review previous meeting notes.**
3. **Purpose of the meeting:**
    a. Share the finalized transition plan.
4. **Where things are at:**
    a. personal, family and farm
    b. general discussion and questions
5. **Transition planning specifics:**
    a. Review the lessons learned in the transition planning process.
    b. Discuss plan implementation.
    c. Conduct general discussion and answer questions.
6. **Concerns and Issues:**
    a. general discussion and questions
7. **Timelines:**
    a. Assign responsibilities with due dates.
    b. Set next meeting time if necessary.
8. **Adjourn**

Appendix – Resource References and Contact Information

1. The Executive Program for Agricultural Producers (TEPAP)
    1. www.tepap.tamu.edu
2. Canadian Total Excellence in Agricultural Training (CTEAM)
    1. www.agrifoodtraining.com
3. Farm Credit Canada
    1. www.fcc-fac.ca
4. Farm Management Canada
    1. www.fmc-gac.com
5. Government of Canada
    1. www.agritalent.ca
6. Manitoba Agriculture, Food and Rural Development
    1. www.manitoba.ca/agriculture
7. Saskatchewan Ministry of Agriculture
    1. www.agriculture.gov.sk.ca
8. Online DISC Profile
    1. www.onlinediscprofile.com
9. Centrec Consulting Group
    1. www.centrec.com
10. Family Business Management Services LLC
    1. www.familybusinessmgt.com
11. Legacy by Design, LLC
    1. www.legacy-by-design.com
12. Backswath Management Inc.
    1. www.backswath.com

Farm planning tools mentioned in the guide that are available on the Manitoba Agriculture, Food and Rural Development website.

- Gaining Ground Agribusiness Assessment
- A Legal Guide to Farm Estate Planning
- A Legal Guide to Farm Land Ownership
- Human Resource Management for Farm Business
- FarmPlan
- RetirePlan



For more information

- Contact your local Manitoba Agriculture, Food and Rural Development (MAFRD) Growing Opportunities (GO) Office.
- To find your nearest GO Office, call Manitoba Government Inquiry, toll free at 1-866-626-4862.
- To find out more about the federal-provincial *Growing Forward 2* initiative and provincial programs and services, go to **manitoba.ca/agriculture**.

Canada

Growing Forward 2

A federal-provincial-territorial initiative

Manitoba

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